Start of Transcript

Andrew Harding: Good morning and welcome to the fully year results for financial year 2019 for Aurizon. Pam and I will go through the presentation that we lodged with the ASX this morning, which is available on our website. As usual we will start with safety, I will then cover the outcomes from the integration review, and Pam and I will then cover FY19 performance, which includes Pam taking you through the outcomes from the legal and capital structure review.

At the end, we will take your questions with the rest of the executive team who are in the room with me here in Brisbane. Just to remind you the team is Ed McKeiver, Group Executive Coal, Clay McDonald, Group Executive Bulk, Michael Riches, Group Executive Network, Mike Carter, Group Executive Technical Services and Planning, and Tina Thomas, Group Executive Corporate.

Now turning to safety performance. At Aurizon we always start with safety. Over the last 12 months our safety performance has been mixed. We have improved 14% against the prior year in a key metric of rail process safety, which includes derailments, signals passed at danger, and rolling stock collisions.

This is significant given these events, while low frequency, can be high consequence, potentially multiple fatalities, so our efforts to reduce risk are very important. However, the other key metric of total recordable injury frequency rate, which captures the number of injuries to employees per million hours worked, has deteriorated 10%. This result is disappointing, and we're absolutely committed to fundamental improvement in our safety performance.

There are some observations I would like to make on the result. First, over the last 12 months we've been rolling out a multi-year program of work called Seamless Safety. This program is simplifying the management systems and promotes a culture that engages and enables employees to improve safety outcomes.

Second, the overall severity of injuries has decreased, and finally, while there are parts of the business that require improvement, there are also areas of strong performance, which need to be acknowledged. While these factors explain to some degree the deterioration in performance, the reality is that any injury is unacceptable. Safety remains a core value, and our aim must be zero harm. That is everyone going home the very same way they arrived at work.

Turning now to the integration review. Before we get into the performance for FY19, I want to talk through the outcome of the review of the integrated structure. I said at the Investor Day last year, the structure of Aurizon would be reviewed to determine what created the most value. This work had previously been completed in the leadup to the IPO in 2010, and the assumptions needed to be retested again, given almost 10 years had passed and the markets we operate in have changed.

We had no bias to a particular outcome, and assessed the decision against five relevant core criteria, those were 1, stakeholders, 2, synergies and dis-synergies, 3, growth options, 4, capital structure, and 5, valuation. We weighed up all the data and evidence behind these criteria and presented our recommendation to the Board. Together we considered the implications for each structure with regard to shareholder value and strategic intent.

I will now go through each in some more detail. First, we sought feedback from various stakeholders, with an emphasis on our coal customers. We had conversations with the majority of our coal customers through the year, in order to gauge their views. What became clear was a preference for Aurizon to remain integrated, or an ambivalence about structure.

We also considered vertical integration through the lens of other stakeholders, including shareholders, the Queensland Government, communities, regulators and our employees. This highlighted a range of views, but no clear consensus and no red flags were evident for either outcome. The conversations we've had with our shareholders for example, also showed that these stakeholders considered other issues more important, such as regulatory reform and efficient capital structure, and continuing efficiency and transformation gains.

Second, we looked at operational and financial synergies from being integrated and dis-synergies that would be created from being separated. The synergies from operational improvements that we have been progressing for some time, could be challenged in a separated structure. This challenge either means that value is lost, reduced, or significantly delayed, or the execution risk increases.

For example, precision railroading, which we've talked about in the past, requires Network and coal to work together seamlessly, to ensure train schedules are adhered to, which adds efficiency and capacity to the system. While not impossible in a separated structure, this is much easier with a common owner for coal and Network, as there is alignment on scope, timing, and the project is given the priority it deserves, given the value it can create.

Another example is wayside condition monitoring, installed in Queensland. These are above rail assets installed on the below rail corridor, and even though there is a formal process to follow, this was expedited by the common ownership. We're well advanced in the process to install the same equipment on the Network in the Hunter Valley, however I would note that in this location, where we do not own the Network, the process has been running for years and it has been subject to numerous delays.

Dis-synergies also occur in the form of duplicated costs, which is principally the head office. We estimate the value at risk from these projects and the additional costs associated with separation, represent approximately 10% to 15% of FY19 EBIT, which is a meaningful number. While there is some judgment about these numbers, we believe the assessment is reinforced by looking at freight railways globally.

Australia is one of the few partially separated markets, with more than 90% of global freight tonne kilometres moved on integrated railways. This is because integrated railways are generally the most efficient form from an operational and therefore financial perspective. The learnings that we have applied looking at operational improvements from overseas peers have all come from integrated structures.

Next, we looked at what growth options might be available under either structure, and we also produced a detailed piece of work on the valuation of Aurizon under both structures. Growth options could present themselves under both structures, although they are different with below rail opportunities being more apparent under a separated structure.

The key learning here is that an opportunity would need to present itself before you pursued structural separation, and there is no such opportunity today. Execution of growth options is uncertain in either structure, particularly in Australia given recent decisions from Regulators.

An integrated structure is more likely to offer broader opportunities however, these would be high risk, and as I've stated before, the primary objective of the strategy for Aurizon is first and foremost to be the most operationally and financially efficient company for our customers and our investors.

On valuation, the share price today under the current integrated structure, implies the discount to fair value of the individual businesses has narrowed compared to last year. Therefore, a theoretical valuation upside from the separation would be lower. The recent improvement in our share price has been driven by a number of factors, but we believe the three most significant are favourable equity market conditions, which includes the low interest rate environment, the UT5 commercial agreement, and the operating performance from the company.

We do not believe that expectations for a separation has itself driven the share price in a material way based on conversations with investors. In terms of what we think will drive shareholder value in the future, they are shown on the slide, with the important point being these are in Aurizon's control, are either known or in advanced stages of planning.

Importantly, these items are not assisted by separation. In fact, in some cases such as operational efficiency, remaining vertically integrated is required to deliver these value drivers. Certainly, there has been some expectation building around Aurizon's capital structure recently, but we believe this can be addressed regardless of the integration decision, which I will touch on now.

Historically, Aurizon's capital structure was not optimised given the strong balance sheet and risk profile of the above rail and below rail businesses. Part of the reason was a legacy of the illegal structure inherited from the IPO with the above rail business, Aurizon Operations, owning the below rail business, Aurizon Network.

This restricted the ability of operations to have appropriate leverage, given all the debt resided in Network, and rating agencies looked at the cashflows of the entire Company. Reorganising the legal entities to a more logical structure within the Group has now provided an opportunity to optimise the balance sheet and realise value.

Or to put it another way, the capital structure benefits many believe would come from separation, can now be realised through this process. Pam will run through this in detail in her presentation.

In conclusion, and as I've illustrated, we carefully looked at this issue through the lens of our stakeholders, especially our shareholders and customers. We also took into consideration important factors such as synergies and dis-synergies, growth options, valuation and capital structure. It was incumbent upon us to do this detailed work, given it has been a decade since the vertically integrated structure was put in place.

As I indicated going into the review, we had no bias to any particular outcome. We took the time to do our research, talk to our stakeholders and look at the issue from every angle. The evidence clearly showed the benefits of integration continue to outweigh the benefits of separation for Aurizon.

Having now done this work and reached this conclusion, it allows us to continue moving forward with certainty for our shareholders and stakeholders. We can also continue to unlock the value offered by vertical integration, particularly through initiatives such as Precision Railroading and other operational improvement projects.

Moving onto FY19 performance. The Company delivered a full year result above the top end of guidance for our Non-Network business of $450 million excluding redundancies. While the financial result was 12% lower than the prior year for the Group, it reflects the impact of the UT5 final decision in Network, which includes a $60 million true up owing to customers in relation to the FY18 year. It also includes a $20 million recovery of a doubtful debt.

The Non-Network result includes the full year impact of the cessation of Cliffs in June 2018 in Bulk, and the maintenance and reliability measures that have been undertaken in Coal. Pam will provide more detail on this shortly. In Coal, volumes were up 1% at 214.3 million tonnes for the year, which was just below the lower end of guidance. Coal volumes have been impacted by weather, protected industrial action and other supply chain constraints during the year.

Pleasingly though, Coal finished June with a monthly all-time record of 20.4 million tonnes, and in July our employees voted in favour of a new EA. In Network, volumes were up 1% to 232.7 million tonnes, with June also being a record month for CQCN and Network recording a new annual record for the year.

Statutory NPAT was 15% lower against the prior year, consistent with the reduced EBIT. Free cashflow was up 10% at $735 million, benefiting from the termination payment from Cliffs. Finally, on shareholder returns, a final dividend of $0.124 per share has been declared by the Board, which represents a payout ratio of 100% of underlying NPAT for the continuing operations.

This includes the benefit from the recovery of a doubtful debt. In addition, we have also announced an on-market buy-back for $300 million, further confirming our commitment to returning surplus capital to shareholders. There is also the opportunity for further capital management as an outcome from the legal and capital structure review, which Pam will cover in more detail shortly.

Turning to key achievements. In June 2018 we released the Company's refreshed strategy. At the time, I noted Aurizon had been progressively delivering on the strategy since I joined the Company back in December 2016, through the actions that had been taken. The delivery of the strategy is underpinned by three levers; optimise, excel and extend.

As you can see on the slide, most of our effort has been on the optimise and excel levers, where the major near-term drivers of value have been generated. Extend is the lever for long-term growth and is incremental to what the current core business can deliver. The purpose of this slide is to remind you of our progress against our strategy, with the ultimate aim of this work being the delivery of shareholder value and improved returns.

I have spoken in detail previously about the first four items. Today we are talking to the final two, the new deals we have contracted in the Coal business, and the outcome of the legal and capital structure review. As I just stated, we believe the most value at this time is delivered through an integrated structure.

We have consistently demonstrated our commitment to shareholder returns by maintaining our 100% dividend payout ratio for the last four years. The actions that we are taking on the capital structure provide future ongoing capital management opportunities.

Turning to the Coal business. In coal, the market conditions continue to be good. During the last 18 months I've been asked a number of times about whether the actions we took in relation to the UT5 draft decision would have a negative impact on our Above Rail Coal business. I'm very pleased to be able to provide you with tangible evidence that the relationships with our customers remain strong.

Today, we are announcing two significant contract updates in our Queensland portfolio. For Jellinbah we have re-contracted new agreements to exclusively haul over 15 million tonnes from their Jellinbah East and Lake Vermont mines. Similarly, with Glencore we have secured a range of contract extensions and additional volumes, most notably in the Newlands corridor.

With these contract wins, we have increased the proportion of our contract portfolio in the greater than seven years category, by 4 percentage points to 72%. This further de-risks our near-term contract book and creates value by extending our average contract term.

We have been able to secure these contracts providing the right value proposition to our customers. There are a number of aspects to this.

First, you need to have an excellent delivery performance and reliability. This is where the contract can be won or lost, so we continue investing in rolling stock maintenance and overhauls, as well as progressing the Rrecision Railroad initiatives in CQCN to improve our on-time performance and reduce cycle times.

Second, being a delivery performance leader is only achievable if we have an engaged and responsive workforce. We're also looking at our workforce productivity through rostering and scheduling systems.

Finally, you need to offer the customer the right commercial value for them. This does not necessarily mean you always represent the best price, but you must always represent the best value. The haulage market remains competitive, and we expect downward pressure on prices to continue. This is why continued momentum on operational efficiencies is important to mitigate the impact of pricing pressure and protect haulage margins.

We remain committed to being the customer's first choice for coal haulage in Australia. We routinely engage with our customers to understand their value drivers, so we are better able to tailor contract terms and conditions to meet their needs and create shared value. This can lead to operational innovation, such as flexible nomination periods, reserve surge capability or alternate load points, depending on the risk-sharing a customer is prepared to pay for. In this way, our unique operational scale and diverse contract portfolio enables us to contract flexible solutions that self-evidently appeal to today's customers.

Moving to Bulk. We've been working hard on the turnaround and repositioning of our Bulk business over the last two years since the introduction of the business unit model, and the turnaround is in line with expectations. The early cessation of Cliffs in June 2018 was a headwind for Bulk, but we have had contracting success during the year, with the commencement of the Glencore Freighter in October 2018 and the Linfox hook and pull [haul] in February 2019.

In addition, we've secured a short-term spot agreement with iron ore customer, Mount Gibson, as they have been able to recover low-grade ore due to the strong commodity price. This growth means that the Bulk business, excluding iron ore, has the same number of contracts today as it did two years ago, despite the exit of four under-performing contracts.

The bulk market is very different to coal, and this is why market positioning is important. While contracts are generally shorter duration, lower volume and smaller in value, there are many opportunities that are available due to high commodity prices underpinned by strong demand across a range of products.

To be successful, the Bulk team is focused on speed to market, supply chain reliability and cost competitiveness. In addition to the revenue opportunities, there remains a strong emphasis on operational efficiencies to ensure that margins and returns expand as we win new business. Two of the three Bulk EAs have been agreed. Work continues on the Queensland EA, and we are confident of a positive outcome in the next few months.

Turning now to Network. In May we submitted an alternate UT5 access undertaking to the QCA, which was negotiated with our customers. This is a ground-breaking agreement that provides longer term certainty for all industry participants. It better meets our customer's needs by providing the improvements they desired, including independent network capacity analysis, enhanced supply chain coordination and improved maintenance and asset renewal processes.

For Network, it provides an improved rate of return more commensurate with the level of risk we take owning and operating the CQCN. The commercial deal also incentivises Network transformation, as any savings against the operating cost allowance will be retained by Network for the term of the undertaking. Stakeholder submissions closed in early July, and we now await the QCA's decision. We expect a decision to be handed down in the next few months.

In terms of operational efficiencies, as I just mentioned, the commercial agreement now provides mechanisms for Network to start driving further efficiencies through its operations. On maintenance, these will be passed through to our customers. On operating expenses, any efficiencies will be retained by Network for the term of the undertaking.

The graph on the slide illustrates the potential compressible operating costs. We're currently working through a review of the Network business to identify the efficiencies, and this is a key deliverable this year.

Before I hand over to Pam, an update on other matters. On Acacia Ridge, we were pleased with the Federal Court's decision in June, however the ACCC has appealed the decision and a court date has yet to be set. On WIRP, the Supreme Court of Queensland's favourable decision in June has been appealed by the customers. Given the uncertainty, no WIRP fee has been recognised to date.

Finally, on the rail grinding business, this business delivers services to a range of customers in Queensland, New South Wales and Western Australia, including Network in the CQCN. It generated EBIT of around $15 million in FY19. When reviewing the portfolio, we determined that this business was non-core. We subsequently undertook a comprehensive market testing process which culminated in the execution of an agreement with Loram to acquire the business for an enterprise value of $186 million.

Aurizon's rail grinding business includes approximately 75 employees and five rail grinding machines. All employees and assets will be transferred to Loram, together with the novation of existing customer contracts held by Aurizon. Loram will also provide services to Aurizon Network for the CQCN under a new agreement with a term until FY27. We expect the contract to close first half FY20.

Now I will hand over to Pam.

Pam Bains: Thank you, Andrew, and good morning to everyone on the call. As a reminder, the results I will cover today are based on the continuing operations, hence exclude Intermodal, which is classified as discontinued.

FY19 is a year where we have delivered results ahead of expectations with Non-Network above the top end of guidance. Whilst the overall result is lower than the prior year, there are benefits from operational efficiencies, but these have been more than offset by the one-off regulatory true up in relation to FY18 of $60 million, to account for the UT5 final decision.

This is the largest contributor to the 12% reduction in EBIT for FY19. The result also includes a $20 million recovery of a doubtful debt. This has been included in underlying earnings as the original doubtful debt provision was accounted for in underlying earnings in FY16.

I'll run through the detail on drivers of EBIT in each of the business unit summaries. We continue with our disciplined approach to capital management, with CapEx tracking in line with expectations, strong free cashflow generation and maintaining our 100% dividend payout with a final dividend of $0.124 per share. We've also announced an on-market buy-back of $300 million this year.

Starting with Coal. EBIT decreased $14 million to $415 million. Total coal volumes increased 1% to hit a record of $214.3 million tonnes, albeit slightly below our guidance range due to a number of one-off factors. Volumes were broadly flat in CQCN, despite positive demand reflecting supply chain constraints including adverse weather and the impact of protected industrial action.

New South Wales and South East Queensland volumes were 4% higher, with additional growth volumes from the commencement of railings from MACH Energy and positive demand from existing customers. This was partly offset by one-off events including protected industrial action and a third-party derailment, both in the first half of the year, and customer-specific production issues.

Revenue quality has improved with lower contract utilisation and benefits from fuel and CPI escalation. Operating costs net of access and fuel have increased $35 million against prior year. You will recall I previously outlined an expected increase in costs for the Coal business for FY19, with costs supporting new growth and additional maintenance with both the reinstatement of stored rolling stock and the increase in a number of locos and wagons.

Additional maintenance costs in FY19 totalled $23 million. Coal also incurred $6 million in costs supporting growth tonnes and $7 million in CPI impacts. Depreciation increased $12 million in line with increased fleet, including the transfer of locomotives from Intermodal Interstate and overhaul activities. So, overall a solid result from Coal, despite the volume impacts, with increased costs in line with expectations.

In relation to FY20, we expect higher EBIT, driven by additional volumes and ongoing operational efficiency. As Andrew mentioned earlier, given the competitive haulage environment, we are seeing pressure on rates. This, combined with increased contract utilisation is expected to more than offset benefits from annual escalations in the medium term. However, the work we continue to do on operational efficiency is designed to mitigate this impact.

Moving to Bulk. Bulk's underlying EBIT decreased $13 million to $37 million, due to the cessation of the Cliffs iron ore contract in June 2018. Removing the impact of Cliffs, Bulk revenue increased in the year from volume growth across a number of customers both in the east and west. Bulk East is seeing the full year benefit of MMG, and the commencement of the Glencore Freighter service in October 2018 and the Linfox service in February 2019.

Bulk East also benefited from internal services that have been transferred from Coal. This was partly offset by protected industrial action and flooding impacts in Queensland in the second half of the year. In the West, volumes increased with higher export bauxite volumes and increased utilisation on the Kalgoorlie freighter service.

Revenue quality in Bulk benefited from reduced rate relief due to higher commodity prices for one customer. Operating costs net of Cliffs have increased, corresponding with the increase in volumes. Net depreciation on the bridge represents the movement in depreciation excluding Cliffs, and includes the impairment expense. So, overall a very good result for Bulk, which demonstrates the work the bulk team are executing on the turnaround.

Moving to FY20 and beyond, we expect EBIT growth in Bulk through ongoing operational efficiency, the full year impact of the new contracts commenced in FY19, being Glencore Freighter and Linfox, and the commencement of the new form IPL contract from the second half of FY20. In addition, if the performance of Bulk East continues to improve, there may be an opportunity to capitalise and not impair future capital expenditure going forward.

Moving to Network. As I highlighted earlier, regulatory access revenue has been booked based on the UT5 final decision, and we've accounted for 100% of the FY18 true up in FY19. This has driven an $81 million or 17% reduction in EBIT. There is no impact yet from the recent UT5 customer agreement until it is approved by the QCA. Volumes were higher against prior year, and were a record in the CQCN at 232.7 million tonnes.

Total revenue has decreased $101 million. This includes the true up to the UT5 final decision for FY18 being $60 million excluding GAPE. There was a further $48 million reduction, representing the maximum allowable revenue decrease from transitional tariffs to the UT5 final decision in FY19.

Network over-recovered allowable revenue during the year of $12 million. This will be included in the revenue cap calculation and repaid to customers via tariffs in FY21. Note that the final revenue cap may be different as it is also adjusted for escalation and other items in accordance with the undertaking. The year-on-year movement in allowable revenue over recovery was $4 million, which is detailed on the bridge.

$18 million represents the FY18 flood recovery amount, which was a one-off. This has been offset by a positive revenue cap impact of $66 million. The other revenue reduction of $12 million on the bridge principally relates to the recognition of the Caledon Bank guarantee in the prior year, and the reduction in GAPE revenues, which includes its own UT5 final decision true up and also reflects the reset of the risk-free rate.

As a reminder, there is a three yearly reset of the risk-free rate under the GAPE Deed, with the most recent being June 2018. Other operating costs are broadly flat with higher wage costs due to CPI impacts largely offset by a reduction in consumables and other expenses. Depreciation increased $13 million, mainly related to ballast and asset renewals.

In terms of FY20, assuming the customer DAAU is approved during the year, and the WACC increases from 5.9% to 6.3% in the second half of FY20, we expect maximum allowable revenue, excluding GAPE, to step up by approximately $85 million. This assumes no volume variance and no rebates are payable. However, this will be partly offset by additional depreciation and CPI impacts.

Also, please note that we have accounted for the UT5 final decision true up in the FY19 result,the actual cash payment to customers will be made in the first quarter of FY20.

Moving to capital expenditure. Capital expenditure for the year totalled $495 million within the guidance range. Growth capital of $44 million largely relates to the purchase of new Coal rolling stock to support growth in the Hunter Valley and the purchase of new wagons for the CQCN. In relation to FY20, our expectation is for non-growth capital of around $480 million to $500 million, and growth capital of between $40 million to $50 million, relating mainly to the procurement of wagons for Coal in CQCN.

Our expectation for FY20 does not include any assumption for CapEx relating to the initial capacity assessment as part of the UT5 customer agreement. As a reminder, this could be a one-off commitment up to $300 million.

At the half year, I advised we had commenced work to determine the optimal capital structure of the Group. Our objective from the review was to create a simplified legal structure that allowed us to optimise the balance sheet.

The current structure detailed on the slide is a legacy of the IPO and is not efficient. The proposed legal structure separates the above and below rail businesses under the holding company, and aligns the credit ratings with each business. This facilitates standalone funding structures for both above rail business Operations and the below rail business Network and will allow us to manage the debt portfolio and capital structure of each, consistent with their individual business risk profiles.

Both entities will target credit ratings of BBB plus BAA1, which is consistent with the current Group ratings, which I will explain in more detail on the next slide. We've already engaged with our credit rating agencies on this proposed structure. Based on these credit ratings, the Group will have approximately $1.2 billion of additional debt funding capacity under the new structure, with debt being added progressively over time in order to more effectively manage the execution.

This funding capacity is in addition to the buy-back announced for FY20 of $300 million.

There are a number of steps to be undertaken to implement the proposed structure in order to establish the independence of the two entities, and these are outlined on the slide. Work has commenced across a number of these streams, and I note we have already received duty relief from the Office of State Revenue. The remainder of the steps will be completed in the near future.

Moving on to Aurizon's capital structure objective. An optimal structure will enable the appropriate balance of shareholder returns and capital investment while retaining balance sheet strength. The objectives are all interrelated and need to be considered together rather than viewed independently.

Although Aurizon's cashflows through the cycle would imply it can sustain a very high level of gearing, this needs to be balanced against providing enough flexibility to reflect business risk and changing market conditions. Flexibility is a key determinant, reflecting the need to be able to react quickly to changing customer requirements, in addition to managing through material short-term impacts to cashflow caused by unexpected events such as weather-related disruptions.

The cost of capital needs to be considered in order to maximise long-term shareholder returns. The relationship between the cost of debt and equity return expectations at different gearing levels also needs to be considered to minimise our weighted average cost of capital. Considering all of this, we have determined the appropriate target credit ratings for both Operations and Network are BBB plus, BAA1, which represents strong investment grade ratings.

The ratings are consistent with the Group's ratings today, which provides certainty to our banks and debt investors, and when combined with the impact from the new legal structure, there are additional benefits to shareholders in the form of future capital management.

In terms of capital allocation strategy, our prioritisation remains unchanged from what we have previously communicated. First, we need to determine the available capital envelope. This considers ongoing operating cashflows and the impact of the new legal structure. Second, capital will be deployed to non-growth projects. This is both our sustaining and transformation requirements.

Third, is dividends, noting we have maintained 100% payout ratio for the last four years. Finally, any surplus capital will be returned to shareholders or deployed to growth projects only when it maximises shareholder value. We've demonstrated our commitment to this today, both through maintaining a dividend payout ratio of 100% and announcing an on-market buy-back of $300 million.

The additional $1.2 billion funding capacity will be deployed consistent with this strategy. Therefore, in the absence of growth, this provides an opportunity for additional capital management over a number of years, given the intention to progressively draw down on this capacity.

With Aurizon's low franking balance, the preferred approach to a return capital to shareholders at this time is through an on-market buy-back. The low franking balance is due to low cash tax rate which is normal for a capital-intensive business, and because franked dividends have been paid at 100% of underlying net profit after tax for the last four years.

Other forms of returning capital would generally have a significant portion treated as an unfranked dividend, which could have adverse tax consequences for investors. We believe the action we are taking through this restructure will unlock significant value for shareholders.

As Andrew highlighted earlier in the integration review, the capital structure benefits that many believe would come from separation, can now be released in an integrated structure.

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

Andrew Harding: Thanks, Pam. Turning now to the financial outlook for 2020. We've provided EBIT guidance today for the Group which reflects the improved certainty for the Network business around UT5. For the Group, we are providing a guidance range of $880 million to $930 million for underlying EBIT, compared to $829 million for FY19, with the key assumption as follows.

For Network, it assumes the QCA approves the customer deal and there is no volume variance. For the Non-Network businesses, the range reflects EBIT growth for both Coal and Bulk, driven by increased volumes and continued benefits from operational efficiency improvements. We expect Above Rail Coal volumes of 220 million to 230 million tonnes for the year.

The EBIT range also includes redundancy costs and excludes any EBIT contribution from the rail grinding business. As is our normal practice, we also assume no major weather or industrial relations impacts.

In summary, how does what you've heard today translate into shareholder value creation? Approximately 50% of Aurizon's portfolio has stable regulated earnings through the Network business. This has been enhanced through the commercial outcome that has been achieved for UT5, which has improved the regulatory landscape for the whole industry, providing long-term certainty and improved returns.

In a competitive haulage environment, Coal and Bulk are focused on what they need to deliver, which is excellent service delivery and exceptional performance. Over the last two years, the Above Rail business has reshaped its offering, putting customers at the centre of their strategy, which is evidenced through contracting success in both business units.

Since listing nearly a decade ago, Aurizon has made significant changes to its business, transforming from a government owned organisation into a leaner, more efficient listed company. But there's still a long way to go. Efficiency gains will continue to feature heavily at Aurizon as we move into our next decade, and as I outlined earlier, will be delivered through an integrated structure.

Our legal and capital structure was a legacy from the IPO. We are now implementing the outcomes from the review. The changes we are making will simplify our structure, providing additional funding capacity over time.

Finally, we have a history of strong distributions to shareholders through dividends and other capital management strategies where capacity allows. We look to maintain this pattern of behaviour.

I now welcome your questions.

Operator: Thank you, if you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Matt Ryan with UBS, please go ahead.

Matt Ryan: (UBS, Analyst) Hi Andrew, hi Pam. Maybe a first question for Pam, just thinking about the debt that you'll be taking on as part of the new capital structure. How are you thinking about balancing tenure and rates? I guess we're seeing some companies refinancing 10 year debt as low as somewhere in the low fours, which might be a bit long-dated for you, but what sort of rates do you think we should be expecting in today's market?

Pam Bains: As I mentioned, we'll continue to progressively draw down on that capacity, and our strategy has always been lengthening tenure and obviously achieving the best rates. At the moment our cost of debt is 4.5%. Obviously, we will with a low risk-free rate environment we'll look to improve on that.

Matt Ryan: (UBS, Analyst) So, you can't give us any sense of what you think similar companies would be getting in today's market?

Pam Bains: I would hope it will be lower but not at this point. We would be raising debt in both Network and Operations and obviously Operations hasn't raised debt previously in debt capital markets.

Matt Ryan: (UBS, Analyst) Okay, thanks. Just the Glencore contract, I notice that was extended for a couple of years which is a bit less than we'd normally expect. Can you just talk a little bit about the timing of that expiry?

Andrew Harding: I will get Ed to answer that question.

Ed McKeiver: Yes, good morning, I'm Ed. Well, the Glencore, the dates for those terms, were set by the customer. It was a negotiation process and that was what they were looking for at the time.

Matt Ryan: (UBS, Analyst) Okay and just while I've got you, so Coal costs. I see that cost per NTK increased a little bit in FY19 which I think was flagged due to the maintenance costs and also the new volume costs. I think Pam was saying that you're hoping to mitigate CPI escalation moving forward, but can you just make some broader comments about margins in the Coal division over the next couple of years, especially in light of the new EA that was signed?

Ed McKeiver: Yes, certainly. I mean, Matt, we expect margins - I expect to protect margins over the next few years as a trend. As you say, there's some - FY19 was a little bit of an anomaly in relation to our costs and we expect going forward costs to fall back into line with previous years. So focused on usual operational efficiency projects, Precision, some of the technology investments we are making and also longer trains and increasing our pay loads.

Matt Ryan: (UBS, Analyst) Okay and just lastly, what has been the progression of that Precision scheduling initiative that you put through so far?

Ed McKeiver: As you know, we've been at it for about 12 months. We ran a trial in the month of, well, starting in May and it ran through to June in the Moura system. We have seen some delightful results. For example, so when we'd run that trial and adhered to the schedule, we saw turnaround times fall by about 10%, by 2.35 hours, on time performance at mine lift from 23% to 67% and a reduction in delays per service of 45 minutes. So that all bodes well for releasing capacity in the system and also for safety because we can - our crews know where the trains are going to be. It reduces our travel time and also our lift up and lay back, penalties under the EAs and…

Andrew Harding: I might just get, well, two things I want to make everyone aware of is the fact that that is really Ed and he is just recovering from a very bad flu. Well he tells me he's recovered but he doesn't sound like himself normally, but yes, he's on the mend. But I might just get Michael Riches just to make a few other comments about Project Precision because the project does cover Above Rail and Below Rail and I think you've just heard the Above Rail side of it.

Michael Riches: Thanks Andrew. I think with Precision FY19 was a really positive foundation for taking precision forward including, in addition to the scheduled adhered Moura trial that Ed mentioned, we have made a number of improvements to our maintenance programming to release capacity and ensure that we can reduce turnaround time. Similarly, we work with Above Rail looking at yard improvements and reduced dwell.

So we have a very good platform we feel to go forward in FY20 which will include a scheduled adherence trial in the Blackwater system starting in September and as we progress that and the learnings from that, we will look to take those improvements through to the Goonyella and Newlands systems as well, with expectations that the type of improvements that Ed described in the Moura system will translate through to the other systems.

Matt Ryan: (UBS, Analyst) Are you able to quantify how much of the $50 million that you achieved this year of the cost saving?

Michael Riches: Look, I think, as we've described, it's a long-term project that is intended to deliver right through, those $50 million, right through in FY21. FY19, certainly very much a foundation year and a platform, so there were small improvements in the financial performance delivered by Precision and we expect those will increase as we go through FY20 and FY21.

Matt Ryan: (UBS, Analyst) Okay, thank you.

Operator: Your next question comes from Jakob Cakarnis with Citi. Please go ahead.

Jakob Cakarnis: (Citi, Analyst) Morning guys. Sorry to make you go again Ed, you sound pretty croaky there mate. I just wanted to pick up on some comment from the call about the competitiveness that you're seeing in the coal market. It did look like there was some recontracting of the book. Just wondering if you could just highlight the pricing implications and whether there's individual markets where that pricing pressure is being experienced please?

Ed McKeiver: Yes, certainly. I've just filled up my water too so I'm a lot better than I sound. Look, there's no doubt there's a downward pressure on pricing. We've been pretty open about that for the last couple of years. Market is competitive and customers want the right deal, as Andrew had said. Customers are looking for the right deal for them in the circumstances. Each negotiation is different and as are those customer's needs and it's not necessarily the case that negotiation always results in price discounts. For example, some customers are prepared to pay for more operational flexibility because it allows them to drive down their demurrage costs, it allows them to get the flexibility to surge and so on.

Even in the current year with our recent extensions and recontracting some of those contracts and I certainly won't talk about which ones, but some of them were done at the same tariffs without a discount at all. Other ones were more reflective of the competitive market they were negotiated in and the terms. So, it's a general trend. We're alert to it and not alarmed about it. We focus on our operational efficiencies, as I've said. Our longer payloads particularly and now spinning our trains and assets faster in order to be able to release that capacity and do more with the same assets.

Jakob Cakarnis: (Citi, Analyst) Broadly speaking though, would you say that the pricing pressure has been more pronounced in Queensland or New South Wales? Is there any indication that you can give whether that's a market trend or whether it's overall?

Ed McKeiver: Well what I can tell you is that typically, not surprisingly, the pressures is proportional to the number of competitors. In the Hunter Valley you've got four competitors in the same system moving volume, but again, it's not materially different in terms of an outcome.

Jakob Cakarnis: (Citi, Analyst) Sure, sure, okay. Just moving to the second one, just on Precision railing. Maybe one for Andrew, Pam and Clay. Can you just speak to the sustainability of the cost savings? I know that we're calling out that it's an ongoing program. How best do we think about the total savings? Is it an inflation-ish style of offset or are we looking for a genuine drive down in the unit cost across the division please?

Andrew Harding: You might have got a few of the players wrong in that. It's Andrew. I'm not sure Clay has got much to do with Precision Railroading. The ongoing sustain, if I get your question right, the ongoing sustainability from Precision Railroading is high. You are essentially making planning and operational management changes, which you do have to lock those in, but by making them you actually see things happen like the time taken for a train to cycle from mine to port and back to mine falls by some hours. That allows you to see benefits in capital and that you don't necessarily, depending on how your volumes change in the future, have to buy as much equipment as you might in an escalating volume environment.

You also get other operational savings that come out of the actual precise way that you're actually running the business. They're pretty solid long-term sustainable savings or CapEx reductions. That's just thinking about it from a - looking at it from the Aurizon application. This work has been undertaken in various guises in the United States for probably two decades now and there's strong evidence of it running, the savings have been running for decades and indeed being built upon even at the end of running a precision railroading effort for multi decades. There are still improvements to come out of the various businesses that we've looked at in the States, so I would think we have no reason to see anything different in Aurizon.

Jakob Cakarnis: (Citi, Analyst) Sure, thanks guys.

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

Paul Butler: (Credit Suisse, Analyst) Good morning. Congratulations on a great result and I think two good outcomes out of your two reviews with the buyback. I just wanted to ask a question on safety. Can you remind us, the step-up was, sorry, the deterioration we saw in safety performance in 2018 versus 2017, did that coincide with some changes you made in how you were measuring the safety performance then?

Andrew Harding: Not in those particular years. We actually restate - so we - sorry, I'll go back. We did make changes to the way the metrics were defined some years ago, so that was done. Those changes actually made the metrics tougher and also made them higher numerically, but we restated those metrics going back a year or two. I think a year or [it must be] two prior to make them on the same basis. There's no metric change that's leading to the escalation in the performance. It is a poor performance. It is actually poor performance in the TRIFR, or the total recordable injury rate, that we're actually looking at and that's the challenge for us to address it going forward.

The same thing applies to rail process safety. That metric is, while fewer changes needed to be made to that metric, we introduced that metric and restated the history so that we could actually measure ourselves against the process safety changes or improvements over time.

Paul Butler: (Credit Suisse, Analyst) Could you just talk a little bit about what you're doing to improve this? I don't know, I mean if there's additional initiatives that you've kicked off in the last year and how confident you are, we can start to see some improvement here.

Andrew Harding: Sure. Look, in rail process safety is an improvement year on year. That said, there's a lot of work to be done to maintain and indeed continue to improve the performance, derailments, signals passed at danger, which means you'd go through a red light when you're not meant to obviously, can lead to some fairly catastrophic outcomes potentially. Continuing to work to drive that to zero is a main aim.

Secondly, the recordable injury frequency rate has increased. If you look at the basis for that increase it's around rolled ankles walking on ballasts, strained shoulders turning handbrakes, that would give you an example of the quite elevated number of incidents there or causes that led to those. We have also noted that the actual severity has fallen and that is evidence confirmed by Worker's Compensation Claims actually reducing. So, despite the fact the performance has got worse in number, the actual impact of each injury has lessened. That said, no injury is acceptable so please don't misunderstand me there. Our aim is to get to zero.

The programs that were actually put in place, we have not put in place anything new in reaction to this metric performance for the year, under-performance for the year, but we have been working for some time on a package of initiatives that goes under the name of Seamless Safety. It essentially recognises some of our, I'm going to say, our history. Not necessarily government history, but our history as we have an extraordinary number of written work instructions. Far too many for any human being or any thousand numbers of human beings to follow. So, there's a reduction in those.

At the same time, we are working on a series of formal engagement programs with staff and leaders that allow for a more learning, a greater learning environment and a more discretionary enabling environment, but you have to be careful obviously when you enable discretion. It's got to be enabled within strict or strong boundaries to make sure that you get the right outcome. So, moving away - another way of putting it is moving away from a very rigorous structured formal process with a high degree of compliance required, to still compliance required where risks dictate but more discretion being allowed and less documentation. That's kind of the package of work that sits in Seamless Safety. There's more to it than that but it would take longer than this call would run to describe all of it.

Paul Butler: (Credit Suisse, Analyst) Okay, okay. Thank you. Can I just ask, I mean you provided a very helpful slide on Page 62 with the coal contract expiry, I think you've previously given some indication of the level to which there's high pricing in the existing contracts, how far does that extend out in terms of where you've got contracts expiring that have got particularly high pricing arrangements?

Andrew Harding: Okay. I haven't actually turned to that slide but I think I can picture it. We would be looking - I would say if you think about the high price environment, you'd be looking at one, two, three more years. Yes, three more years of a high pricing environment.

Paul Butler: (Credit Suisse, Analyst) Okay, so that's 2020, 2021 and 2022 and then 2023 they're more moderate priced contracts. Is that a correct way to interpret that?

Andrew Harding: Yes, on balance that's fine.

Paul Butler: (Credit Suisse, Analyst) Okay, cool. Then can you give us an update of any more insight you've got on the QCA's handling of the negotiated agreement that they're considering?

Andrew Harding: Yes. Look, obviously there's been many discussions that have been had with customers as well on this issue as the program moves forward. I'll get Michael to take you through some of the detail there.

Michael Riches: Thanks Andrew. Yes, we continue to have good constructive discussions with the QCA together with our customers. QCA have asked a number of clarificatory questions. We have responded to those. There is nothing that gives us any concern that the approval of the UT5 DAAU won't be forthcoming and we expect it to occur during the course of this second half of calendar 2019.

Paul Butler: (Credit Suisse, Analyst) Okay and just one last one for Pam. Can you just confirm, the $1.2 billion additional debt capacity, if that's on top of the $300 million buyback and also when can the buyback start?

Pam Bains: Yes, to the first question. It is on top of the $300 million and as I have noted on one of the slides there's a number of step - oh, sorry. In terms of the buyback that can start post results, two weeks.

Paul Butler: (Credit Suisse, Analyst) Very good. Thanks very much.

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

Rob Koh: (Morgan Stanley, Analyst) Good morning guys and allow me to also congratulate you on the results and the capital initiatives. Just on the additional debt capacity I wonder if we could get some colour from how we should be thinking about that debt sizing. Is that just two times debt to DA for Above Rail or is there a particular FFO to debt that's coming out of your discussions with rating agencies?

Pam Bains: We are very much - we should see some reports from the rating agencies. Gearing will be set in line with the target credit ratings and the thresholds to be set by the rating agencies.

Rob Koh: (Morgan Stanley, Analyst) Okay, well you've put a debt number there so clearly there must be some inferred threshold I suppose. We'll see that in due course.

Pam Bains: You will.

Rob Koh: (Morgan Stanley, Analyst) Yes, okay, no worries. Can we just ask, I imagine it's not particularly material, but is there much cost to achieve, to get that extra debt capacity in place? I guess a bit of extra rating agency fee and a good reward for the treasury team.

Pam Bains: Yes, very little in that respect, $1 million to $2 million max.

Rob Koh: (Morgan Stanley, Analyst) Okay, understood. Thank you very much. If I can just ask a question in relation to the efficiency savings that the Company is targeting with the fully vertically integrated structure. I guess in the slide where you've highlighted what [the firm’s] benefits of integration are put at 10% to 15% of FY19 EBIT, which works out to be about $108 million. Should we be thinking that that's the upside to be looking for out of efficiencies over the near term I suppose?

Andrew Harding: Well, if you look at the package or some of the items that are listed making up that 10% to 15% EBIT number, one of them is Project Precision and I think it's 2021 we said it would deliver $50 million. So, the size is definitely larger than the $50 million. It is the range of 10% to 15% and I would say that one of the obligations you take on by staying, as a management team, by staying integrated is that there is a number of efficiencies that you can see that drive that decision and you're obligated to deliver against those efficiencies.

Rob Koh: (Morgan Stanley, Analyst) Yes. Okay, thanks Andrew. I wish you all well with it. That's it from me.

Operator: Your next question comes from Owen Birrell with Goldman Sachs. Please go ahead.

Owen Birrell: (Goldman Sachs, Analyst) Hi guys. Just a couple of questions from me. The first one is on the proposed legal structure going forward. I'm just wondering what the tax paying position of each business will be and is there more complex tax efficient ownership structure to be underlying a lot of what seems like a fairly simple legal structure?

Pam Bains: There's no change. There's no change from it. It's still a consolidated group.

Owen Birrell: (Goldman Sachs, Analyst) Okay. Can you give us a sense of what the tax paying or the tax rates will be for each of the different assets separately then?

Pam Bains: It's all consolidated so you shouldn't see a change from what exists today.

Owen Birrell: (Goldman Sachs, Analyst) Okay, so assuming it's still the odd 30%…

Pam Bains: Yes.

Owen Birrell: (Goldman Sachs, Analyst) …corporate tax rate for…

Pam Bains: Yes and then…

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

Pam Bains: …cash tax is usually lower which we've always provided. Less than 25%.

Owen Birrell: (Goldman Sachs, Analyst) Okay, so the offsets are still available there. Okay and sorry, just a second question from me. Just looking at the corporate strategy that was revealed at the Investor Day last year. We have obviously seen a lot of optimise and excel examples and just wanting to, I guess, draw a bit more colour on the extend options. Now that you're going to have $1.2 billion of balance sheet capacity I'm just wondering if you can give us a bit of a feel for what are the growth options? I'm just wondering how is this business going to grow going forward and how are we going to see that added into shareholder value.

Andrew Harding: Yes. I think it's - I've said this a number of times before. I mean we have done a fairly detailed look at growth options that are available and the reality is it's a very - it's pretty sparse. Despite the fact that we have capacity available by this legal and capital restructure it is far more likely that the money is returned through capital management.

Owen Birrell: (Goldman Sachs, Analyst) Okay, can you give us a sense of what the limits are on your capital management per year are then going forward?

Pam Bains: We have just talked about progressively over the next couple of years so we haven't flagged the particular amount. Just to Andrew, just to the last point, I noted that the $300 million UT5 customer proposal following the review, that could result in a $300 million additional spend, noting that it does go into the RAB.

Owen Birrell: (Goldman Sachs, Analyst) Sure. That's great, thank you guys.

Operator: Your next question come from Cameron McDonald with Evans and Partners. Please go ahead.

Cameron McDonald: (Evans and Partners, Analyst) Good morning. I think that was actually similar to my question just in terms of how many years you think that capital will be drawn down over. Then how does that interact with, you know, effectively the only growth CapEx that you've got is the $300 million in the DAAU and then potentially the development of the Galilee Basin.

Pam Bains: To the first part of your question, as I mentioned, debt will be added progressively over time and just to manage the execution. In terms of the second part, Andrew as just touched on the opportunities from a growth perspective.

Andrew Harding: Yes and they are limited. The Galilee Basin, as far as development, is still some time away, other than the obvious Adani work that they're undertaking themselves.

Cameron McDonald: (Evans and Partners, Analyst) Then when we look at the contract extensions that you've achieved outlined today and then you've also highlighted up to circa $50 million of growth CapEx, how much of those two items were linked?

Pain Bains: In terms of growth CapEx we had the Hunter Valley which was in relation to MACH Energy which was previously announced and then the coal wagons we announced earlier in the year, that we were buying wagons given the demand in CQCN. So, not necessarily linked.

Cameron McDonald: (Evans and Partners, Analyst) Okay, so despite - so you still think you've got the ability to match the efficiencies that the customers are looking for and the flexibility without actually having to spend any more capital.

Ed McKeiver: This is Ed. The short answer to that is yes, particularly noting the link to Precision and our other operating efficiency technology projects.

Cameron McDonald: (Evans and Partners, Analyst) Okay, great. Thank you.

Operator: Your next question comes from Ian Myles with Macquarie. Please go ahead.

Ian Myles: (Macquarie, Analyst) Good morning guys. Congratulations on the result. A couple of quick questions. Firstly, just on the contracted volumes and that slide at the back on 61. I'm curious to know what happened for New South Wales, South East Queensland. The contract volumes have dropped by about four million tonnes from your first half slide.

Andrew Harding: Ed, can I ask you to…

Ed McKeiver: Yes, I'm looking for that slide here Ian.

Ian Myles: (Macquarie, Analyst) Slide 61.

Ed McKeiver: Slide 61. I've got coal contract portfolio and you're talking about…

Ian Myles: (Macquarie, Analyst) That's the one.

Ed McKeiver: Yes, okay.

Ian Myles: (Macquarie, Analyst) The right-hand side.

Ed McKeiver: Yes, your question is in relation…

Ian Myles: (Macquarie, Analyst) It dropped by four million tonnes in New South Wales, South East Queensland for FY20.

Ed McKeiver: For FY20 I'm showing an increase in the New South Wales and SEQ.

Ian Myles: (Macquarie, Analyst) Yes, but from what you provided at the first half when you put FY20 tonnage on it's down four million.

Ed McKeiver: Oh, of course. The short answer is, Ian, it was the slower than expected ramp up to MACH Energy which is what we'd bought the capital for.

Ian Myles: (Macquarie, Analyst) Okay. In terms of Newlands it appears like you're losing some market share on the Newlands system. Is that just weather or specific mine issues for you or is there actually a structural change happening in that corridor?

Ed McKeiver: Are you talking about FY19 performance Ian?

Ian Myles: (Macquarie, Analyst) Yes, FY19 performance.

Ed McKeiver: Yes, no, what you're really seeing there is the impact of the supply chain constraints in the first half. I note as well our volumes were down. They're down from 20 million to 18 million in the system for the year. There's not a structural reset in terms of market share. In fact, given the announcements of the contracts we've made today it's just the opposite.

Ian Myles: (Macquarie, Analyst) Okay. In terms of the establishment costs of MACH Energy and the new contracts for in FY19, is there a quantification of how much they were? I had somewhere in my mind that it's about $30 million and I was just wondering, does that unwind in FY20?

Pam Bains: I will have to come back to Ian maybe this afternoon on that one.

Ian Myles: (Macquarie, Analyst) Okay, that's fine. Then Graincorp, you've said you've lost the Graincorp contract. How significant is that and I guess do we need to have asset write downs associated with that for those locos and wagons?

Andrew Harding: I might get Clay to answer that one Ian.

Clayton McDonald: G'day Ian, it's Clay here. No, it's not significant revenue or EBIT wise. It does contribute but it's not significant. As far as wagons and locos go, they're written down.

Pam Bains: The majority of it was written down Ian.

Ian Myles: (Macquarie, Analyst) Okay, cool. One final question before I get too much. You talked about the commodity price increases in Bulk because you've got a bit more leverage to some of those prices. I was wondering, of that profit improvement you achieved, how much was actually commodity price based versus haulage based?

Clayton McDonald: You can see on the Bulk bridge, Page 22, volume and revenue quality. Of that revenue quality amount, not all of it, relates to linking to our commodity customer that we've got, that's linked to commodity price.

Ian Myles: (Macquarie, Analyst) Okay, so you say an amount, I should probably assume the bulk of that amount is more about the commodity side.

Clayton McDonald: Yes, it's a large amount. Yes.

Ian Myles: (Macquarie, Analyst) Okay. That's great. Thanks guys.

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

Scott Ryall: (Rimor Equity Research, Analyst) Hi, thank you. Andrew, I just wanted to follow up on the safety questions earlier. In fiscal 2018 in your sustainability report you restated the safety metrics, the TRIFR to include contractors. Yes, you restated all that this historicals, but it changed the shape of the curve and changed the shape of the historic performance and where it's at relative to a couple of years ago. I was wondering if you could comment about whether you're seeing a material difference between your own operations and contractors please and if so, how much harder does it make it to implement change through your contractors?

Andrew Harding: Yes, look that's a great question Scott and we do now include contractors. It's not, contractor performance, is not the reason behind the actual change in performance. If you're looking at one category in the metric, not looking at the individual incidents and whether they're soft tissue or whatever, if you're looking at a category of injury that has changed, it's the restricted work day injuries.

Scott Ryall: (Rimor Equity Research, Analyst) Okay.

Andrew Harding: That's to staff.

Scott Ryall: (Rimor Equity Research, Analyst) All right. You mentioned historically that in addition to a number of the factors you ran through today in terms of winning new business and being seen as a high-quality counterparty that this is front and centre. You're seeing a lot, in the last month or so, a lot of focus on the broader Queensland coal miner market, so you haven't shown up in some of the commentaries that are around safety performance at the actual mines themselves. This is clearly an issue that I know is close to your heart anyway but is obviously coming under a lot of scrutiny at the moment. In terms of turning around your own performance, do you expect an improvement this coming year? Is it that near term or is it more a medium term, two to three year turnaround, that you're looking for?

Andrew Harding: Yes. Scott, I'm absolutely aware of the environment for safety performance just generally in industry that we're playing into. I should, just to paint a broader picture as well, is if you look at the deterioration and/or improvement across our business it's very area specific. It's geographical rather than actually by industry or by Above or Below Rail. To get a little bit more specific our Below Rail business improved dramatically on it's TRIFR during the year, so that's Central Queensland Below Rail. If you look at our Above Rail business and I think of Coal and Bulk together, you see spots where in Western Australia, part of Western Australia, is amongst the worst performing part of the business. It's also got some of the best performing and improved parts of the business.

It's quite spotty across the organisation. That leads me to believe that we will, with the changes that we've made including leadership capability, that we will see a faster than slower turnaround and indeed there's nothing in this that is rocket science. That doesn't mean it's easy to fix, but I would be imagining or expecting a faster than slower turnaround. I will leave it with you whether that actually all happens in one year or not, but I would be extremely disappointed if it took three years to improve.

Scott Ryall: (Rimor Equity Research, Analyst) Yes, no, understood. Then the second major question I had is around I guess the medium to long term. You've mentioned that you're not sure that there will be a lot of growth opportunities that come up with respect to the questions about the use of your increased funding capacity, but what I've - look, you know I'm on the record saying I think you should have remained vertically integrated and I was interested in the customers' feedback being ambivalent to saying yes, we think you should remain integrated.

Clearly the regulator and particularly the competition regulator would probably have a different view of that vertical integration because that seems to be quite a big buzzword for them. If and I mean if, a growth opportunity came up for you in the next two to three years that involved moving into one of the adjacencies that you've talked about historically, what do you think you'd have to do operationally to I guess make a regulator understand that vertical integration is not necessarily a bad thing? Because your customers clearly, as you've said, your feedback is that they're either ambivalent to support it, so if that's the case and you deliver to that, you would have thought there's a case to further vertical integration. I'm just interested in what you believe you have to do to position yourself as a high-quality party in that respect.

Andrew Harding: Yes, look there's a lot of hypotheticals in that. I mean it is worthy of thinking about. I think the reality is actually, to reflect what you've just said, is that regardless of the structure that you find yourself in or inheriting, the reality is focusing on your customer. This is Above or Below Rail. Focusing on the customer, figuring out what they want and working to exceed their expectations are going to put you in pretty good stead come what may. How that was to play out in convincing a regulator of anything, that would be very difficult for me to speculate upon and probably wrong. I'd get it wrong. For the good of the business in the short term to medium term, just running it well, oh and the long term, running it well is key to everything. Running it well from a customer point of view is also everything. It's a no loss scenario to actually just focus on doing those things particularly well.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, great. Hopefully a really quick one for Clay. Can I confirm whether you're doing any work for Rio Tinto in their iron ore business please under your Bulk business?

Clayton McDonald: We are currently doing no work for Rio Tinto in our iron ore business.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, thank you. That was easy. Then maybe it's just for Pam and it's with respect to the slide 21. You did talk to the higher costs in fiscal 2019 last year and Ed made a comment about seeing costs heading back towards historical levels for 2020 onwards. Can I just clarify in terms of what we should think about one-offs in the cost increases that you've called out? Obviously, CPI is not a one off. Costs supporting growth and maintenance, how much of that $29 million combined do you consider to have been investment that only took place in 2019 and won't reoccur?

Pam Bains: Obviously with supporting growth you've got a revenue lag with MACH pushed out further with your costs coming in earlier so you should see the revenue lift. From a maintenance perspective we did have a lift, again, overhauls, wheelsets, which Ed can put more colour on. We do expect it to stabilise. We do have more locos and wagons in the fleet with the volume, so it won't drop, but it will probably level out. Ed, are you happy to a bit more colour on that one?

Ed McKeiver: Yes, certainly. In the costs supporting growth, that's essentially 40 to 50 drivers we recruited during the year for the volume, some of which showed up and some of which ran into the headwinds and the one-offs. The maintenance, from a maintenance costs perspective, we have embarked on a pretty extensive uplift in our maintenance reliability and so the investments we made during FY19 were - well some of them were one-offs, some of them will certainly flow into FY20, but beyond that we expect costs to, maintenance costs that is, to fall back in line with historical levels.

We have also initiated a Company wide review of our asset maintenance which will run through the course of the year looking at how effective our maintenance spend is. To give you some colour on that, I mean we have increased our wagon inspections, we have increased our level of wheelset changeouts. For example, we changed 5500 wheelsets in FY19 versus 3600 in FY18. These things are cyclical in their nature. They come through in waves through the business and we are dealing with those things in FY19 and FY20. What

I am pleased to say is that it's paying dividends. We have seen a 45% improvement in our failure per wagon year, so reliability of our wagon fleet since over the 12 months, 30% improvement in our 6000 class locomotives and our New South Wales fleet a 15% in reliability, that is failure per locomotive year over the course of the 12 months, which of course appeals to our customers and supports our strategy of delivery performance leadership.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, great. Just reconciling your comments from a high level. When you say costs will go back to historical levels, are you talking about the actual level of costs or are you talking about margin performance?

Pam Bains: It's just cost. I would assume that they're flat relative to this year. This year we had a lift so I would assume flat.

Scott Ryall: (Rimor Equity Research, Analyst) Yes, okay, but not step down.

Pam Bains: No.

Scott Ryall: (Rimor Equity Research, Analyst) Okay. All right, thank you.

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

Nathan Lead: (Morgans Financial, Analyst) Yes, g'day guys. A good result. Just three questions from me. First up, Ed, for a number of periods you guys presented this chart for Coal Above Rail revenue where you show capacity, charge revenue, the throughput revenue, fuel cost, pass through and then your incentive revenue. Can you just talk through how those revenue items have changed in FY19?

Ed McKeiver: I won't go into it. We have decided not to release that detail for competitive reasons and other sensitivities Nathan, so I won't go into the details of the numbers. What I can is they've not changed materially.

Nathan Lead: (Morgans Financial, Analyst) Okay, all right. Pam, one for you. Obviously, interest rates have fallen a hell of a lot but you've got interest rate swaps in place which hedge out a lot of that debt. Can you just talk through when those swaps actually runoff and what the average interest rate is at the moment on them?

Pam Bains: They runoff around FY23 so obviously historically we've always hedged in line with the undertaking periods. Then your second, average cost to debt is about 4.5% at the moment.

Nathan Lead: (Morgans Financial, Analyst) What's the average cost on the swaps though?

Pam Bains: I don't have that on me Nathan.

Nathan Lead: (Morgans Financial, Analyst) Okay. Maybe we can get it later.

Pam Bains: Yes.

Nathan Lead: (Morgans Financial, Analyst) Just a final one from me, so Slide 17. You've called out there on the Network business the compressible costs within Network, so it's $138 million for FY19. Just how big a chase target have you got here? How much can you actually pull that down by?

Michael Riches: It's Michael here Nathan. I think with the UT5 customer agreement in May and the opportunity that that's created we're looking at a review of all of the compressible costs within the business, both our operating costs and our maintenance costs which deliver value for our customers. That review is ongoing so we don't have a specific target for either our operating costs or maintenance costs as yet.

Nathan Lead: (Morgans Financial, Analyst) Okay. All right, that's me.

Operator: Your next question comes from Adrian Atkins with Morningstar. Please go ahead.

Adrian Atkins: (Morningstar, Analyst) Hi guys. Just firstly, simply, I can't find the Aurizon Full Year Report. Has that been released? Then secondly, just in terms of the new legal structure, I'm not exactly clear of why that change of legal structure allows the Group to hold more debt. Could you maybe talk about where the additional funding capacity is coming from because Network is already a BBB+? In particular, will you be carrying debt at the Holdings level? Thanks.

Andrew Harding: Yes, look I'll answer the easy which, which is the Annual Report will be due out shortly. The main focus of today is actually getting our results out and ready for this call, but the Annual Report will be out shortly.

Pam Bains: In terms of the other question, the legal structure, as Andrew touched on in his speech the legal structure is a legacy of the IPO with Above Rail business Operations owning the Below Rail business today, so that has limited the amount of leverage in Operations given that all of the debt resided in Network. The rating agencies used to look at the cashflows of the Group. So the way we've moved forward with the proposed structure that facilitates standalone funding structures for both Operations and Network which will allow us to put additional debt in Operations and therefore they will have their own metrics which is where the additional debt capacity comes from and it will be based on the relevant individual business risk profiles of each entity.

Adrian Atkins: (Morningstar, Analyst) Okay, thanks.

Operator: There are no more questions at this time. I will now hand back to Mr Harding for closing remarks.

Andrew Harding: Right, well thank you very much everyone for joining the call. Today we outlined our results for FY19, providing an outcome on the integration review and presented the new corporate and legal structure. What we have outlined today will drive long-term earnings growth for the business and create value for our shareholders. Thank you to everyone for joining the call and good morning.

End of Transcript