TRANSCRIPTION

Company:	**Aurizon**
Conference:	**Analyst Teleconference**
Date:	**10 February 2020**
Time:	**09:30AM AEST**
Duration:	**1 hour 29 minutes 56 seconds**

[START OF TRANSCRIPT]

Andrew Harding: Good morning, and welcome to the Interim Results of Financial Year 2020 for Aurizon. Pam and I will go through the presentation that we lodged with the ASX this morning, which is available on our website. 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; Jason Livingston, Acting Group Executives Network; Mike Carter, Group Executives Technical Services and Planning; and Tina Thomas, Group Executive Corporate.

Now turning to safety performance. At Aurizon, we always start with safety. Tragically, we lost one of our long-serving and highly respected train crew Hans Ah Chee in a road accident in December 2019. This incident is under investigation by Queensland Police, who will prepare a report for the Coroner. Workplace Health and Safety Queensland has advised it has considered all issues relating to the accident and is not investigating the matter any further. While we await the results of the police investigation, this incident is a sober reminder of the need to continue our broader efforts to make road travel safe for our employees. Notwithstanding this tragic fatality, we have improved our total recordable injury frequency rate by 14% during the half.

The other metric we use to measure safety performance is rail process safety, or RPS. This measures core rail operations, including derailments, signals passed at danger, and collisions in both main line and yard environments. During the half there was a deterioration in RPS by 7%. The significant contributor to the result this period was low speed yard derailments. We continue our work on improving our safety performance with a focus on leadership capability and safety risk management and simplifying our safety tools and processes. Aurizon also continues to invest heavily in technology to mitigate risk, including technology in locomotive cabs, trackside monitoring equipment, and train control systems.

As a final comment, you will note that the two measures total recordable injury frequency rate and rail process safety can move around from half to half. It's important to acknowledge that there's been a long-term improvement in Aurizon's safety performance over the past decade. This trend has levelled off in recent times. This is why we are absolutely focused on driving further significant improvements in our overall safety performance. Safety remains Aurizon's core value and our resources and investment must continue to be prioritised to lower the potential risks of serious injury or fatality for our employees.

Turning now to the first half highlights. The company delivered a solid half year result which confirms full year guidance. The creation of shareholder value through actions aligns with the enterprise strategy remains Aurizon's primary objective, and we believe these results provide evidence of that value creation. Underlying EBIT was 12% higher than the prior period, reflecting the positive impact of the finalisation of the UT5 Undertaking for Network and the improved performance in our Bulk business. In Coal, volumes were flat at 106.3 million tonnes for the half. Coal volumes have been impacted by specific customer production issues, particularly in CQCN, which I will cover in more detail shortly. This has been partly offset by increased railings in New South Wales for MACH Energy as they ramp up production. The flat volume performance has resulted in EBIT being marginally lower this half. Network volumes were also flat at 116.6 million tonnes. Statutory NPAT was up 51%, reflective of the improvement in underlying EBIT and a pre-tax gain on sale of $105 million for the rail grinding business. The proceeds from this sale helped free cashflow grow 26% to $465 million and ROIC improved 50 basis points to 10.5%.

And finally on shareholder returns, the Board has declared an interim dividend of 13.7 cents per share, an increase of 20%, which represents a payout ratio of 100% of underlying NPAT for the continuing operations, a level that has been maintained for five years. We've also announced a $100 million increase to the on-market buyback programme, taking the total to $400 million. As the profit on sale of grinding was not included in underlying earnings, it does not impact the dividends as we pay this out of underlying NPAT. Therefore, we've increased the buyback to ensure shareholders benefit from this successful transaction. We've already completed $215 million of the buyback, therefore we have $185 million remaining. Moving to Coal.

During the half we've executed two contracts with existing customers, both of which involved an extension of term and additional volume. These extensions have substantially de-risked the near term contract book for the Coal business with only 9% of contracted volumes expiring in the next three years. This means we have 60% of the Coal contract book with a duration of greater than seven years, an improvement of 11 percentage points against FY19. You will note that six months ago we advised that 72% of contracted volumes had an expiry of greater than seven years. Due the incorrect labelling, this number should have been 49% at 30 June. The detail is disclosed on slide 63.

We've been able to execute the strategy of lengthening the Coal contract book through a combination of flexible offerings, leveraging delivery performance and fleet to share risk and by finding the right commercial value. As we stated for some time, this can result in pressure on contract rates, as dictated by the market.

With the near-term contracting environment now largely complete, we're in a better position to comment more on what this means for revenues. We expect above rail revenue growth for Coal to be limited over the next three years, as lower contracted rates will largely offset the positive impact of volume growth and escalation.

Coal volumes in the first half were lower than expected due to a number of factors. First, weaker prices resulted in some customers, primarily BMA, prioritising maintenance earlier in the year rather than production. We expect higher second half volumes as prices have recovered. And second, production issues specific to certain customers have impacted volumes. This includes Peabody with their North Goonyella mine being closed longer than initially expected, and Whitehaven where production guidance has been lowered due to recent bushfire and a labour shortage.

Volumes being lower than expectations in the first half had a consequential impact on EBIT, and Pam will provide more detail on this shortly. Due to these impacts, our expectations for FY20 volumes are now 210-220 million tonnes or a reduction of 10 million tonnes. As per our normal practise, we do not assume any impacts from one-off events like weather. This also extends to any potential impact from the emerging coronavirus situation in China.

The overall demand picture for coal remains solid, with a range still expected of 1-2% volume growth per year for 10 years for both met and thermal coal. Thermal coal will be towards the bottom of that range, and met coal towards the top.

Coal remains focused on what they need to deliver, which is excellent delivery performance and reliability. This is closely linked to Coal's continuing journey of operating efficiency improvement. There remains a substantial programme of work designed to improve productivity and lower costs, and we have seen progress on some key initiatives. The condition monitoring site in the Hunter Valley has been installed and is awaiting commissioning after a testing phase. This is exciting given the benefits we're seen from this equipment in Queensland.

The Queensland Coal EA has been approved by Fair Work with pay rises between 2% and 2 ½ % each year for three years, and we continue our work optimising train design with longer consists in Hunter Valley and Southeast Queensland. Project Precision has executed a schedule adherence trial in the Blackwater system after implementation in the Moura system. Unsurprisingly, we found the implementation in Blackwater more challenging due to the scale and complexity in this system. We still have work to do, but our customers recognise the benefits that can be unlocked with the project. We'll continue to roll out this important initiative in other systems this year. These efficiencies and many other initiatives are important in providing a differentiated service to our customers through exceptional service delivery and performance excellence. In addition, they'll also mitigate the impact of lower contracted rates on revenue. Moving to Bulk.

The Bulk business continues its turnaround journey, and the result this half clearly demonstrates this. A dedicated Bulk team was established around two and a half years ago, and today we have a business that is performing ahead of expectations, with the Bulk business excluding iron ore, generating a profit ahead of the original three year timeframe. Underpinning Bulk's success is its customer-focused strategy. This includes leveraging its strategically located land and facilities, utilising available capacity and flexible deployment of its assets and people to efficiently access end markets for our customers.

This has resulted in a number of new contracts over the past two years, including two executed during the half. First, we signed a three year contract with Mineral Resources. This includes a full suite of supply chain services and yard operations, representing a return to servicing this customer after almost 10 years and a return to the Esperance region for Aurizon. Second, we have secured a four year contract with Rio Tinto for the operation and maintenance of its ballast cleaning machine in the Pilbara. Whilst this is new work for the Bulk team, we've leveraged Aurizon's existing capability in this space. You can see that the opportunities are varied with these two contracts involving minimal new capital, utilising existing assets and operational expertise.

These opportunities reinforce how Bulk is quite different to Coal. It hauls many products, some requiring specific rolling stock to undertake the task. Not only does it operate in a very competitive rail market, in many cases it is assessed against the road option as customers look for the most efficient solution to access end markets. Therefore, contracts in Bulk tend to be lower in volume, shorter in duration, and often share more operational risk with customers. While this means additional challenges in terms of a future revenue profile, it also means additional opportunities if you are flexible enough to respond to the market.

A large part of Bulk's turnaround success has been its continued focus on efficiency improvement. Over the last six months the focus on business improvement and service delivery in Bulk West has seen a rise in cancellations reduced by 59% for Alcoa, which in turn has seen Bulk deliver record bauxite volumes for our customer. In Bulk East, the business has deployed a flexible maintenance delivery model to its operations. This is a move away from fixed-site, static maintenance to mobile maintenance crews and allows the business to be more responsive and flexible in dealing with maintenance issues. The focus on efficiency, coupled with the new Queensland EA that received approval from the Fair Work Commission in January 2020 demonstrate Bulk's ongoing focus on cost control, which is essential in maintaining Bulk's competitive position in the market it operates. Turning now to Network.

The result for Network is in line with expectations and reflects the approved UT5 Undertaking. This now means UT5 is in place until June 2027. This delivers benefits not just for Network and its customers, but for the whole supply chain. It will allow Network to work more closely with customers to align maintenance and capital plans, and from a customer perspective, it makes Network accountable for performance through the performance rebate process. The weighted average cost of capital is now 5.9% and will increase the 6.3% on the Report Date when Network responds to the Independent Expert’s Initial Capacity report, in the event there is a capacity deficit. We expect this to occur in the middle of this calendar year.

The Initial Capacity Report will provide a review of capacity for the CQCN. If there is a capacity deficit, Network will need to remedy this by either inviting access holders to voluntarily relinquish their access rights, a change in operational practises, or a once-off capital investment up to the total of $300 million which will then be added to the RAB to earn additional revenue. The Independent Expert is in the process of being established, including the appointment of key personnel, and the initial work on system capacity modelling is well-progressed. The Rail Industry Group, or RIG, has been established and Network has submitted the maintenance and capital plans for FY21, which are due for approval. These plans will be submitted to the QCA by the end of this month to form the basis of tariffs for next year. On operational efficiencies, UT5 now provides a mechanism for Network to drive efficiencies through the business.

Before I hand over to Pam, an update on the progress of some additional items of the business. The sale of the rail grinding business successfully completed in October when ownership transferred to Loram. As stated earlier, the net profit on sale will be returned to shareholders through the additional buyback announced today.

On Acacia Ridge, we were pleased with the Federal Court's decision in June. However, the ACCC has appealed that decision with a court date set for later this month. You can see from our results that Acacia Ridge made $7.5 million EBIT this half, which is shown as earnings from discontinued items. So the business continues to generate a positive return while we wait for the court process to play out.

On Wiggins Islands the Supreme Court of Queensland's favourable decision in June has been appealed by the customers, which will be heard in March. Given the uncertainty, no WIRP fee has been recognised to date.

And finally, last September we commenced proceedings seeking damages and declarations for the breach of longstanding contractual rights regarding the sale of Australian assets of Genesee & Wyoming. This matter is currently before the court with no trial date set as yet. And 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. During the half, we have continued delivering on our promises, and our EBIT result demonstrates this with a 12% improvement against the prior period, largely due to the positive benefits of the UT5 Undertaking, which was approved late in the half by the QCA and the strong performance within our Bulk business with new contract wins and a continued focus on costs. I'll run through the individual business unit results shortly.

The statutory EBIT result includes the benefit of the $105 million gain on sale for rail grinding. This also contributed to the strong growth in free cashflow over the half. We continue to maintain our 100% dividend payout ratio with an interim dividend of 13.7 cents per share. As the dividend is based on underlying net profit after tax, it does not include the gain on sale for rail grinding. Therefore, we have increased the on market buyback by $100 million to $400 million.

Starting with the Coal business unit. EBIT decreased $4 million to $206 million with Coal volumes flat against the prior period at 106.3 million tonnes, which was lower than expected. We'd expected reasonable growth in volumes in FY20, and therefore costs have been incurred during this half to support the expected growth. This includes activities such as recruiting and training new drivers and reinstating rolling stock to operational condition. With volumes, and therefore revenue, not coming on as anticipated, earnings have reduced, albeit mitigated by protections within most contracts and efficiency improvements.

Revenue quality has improved with lower contract utilisation and benefits of CPI escalation. Operating costs net of access and fuel have increased $11 million against prior period, mainly due to the cost to install capacity, as already noted, and CPI impacts, offset in part by efficiency improvements. Depreciation increased $6 million as a result of investments in technology and rolling stock overhaul activity.

As Andrew highlighted, given the competitive haulage market, we have seen pressure on rates for some contracts as we moved through the recontacting cycle. Accordingly, we expect above rail revenue growth for Coal to be limited over the next three years as lower contracted rates will largely offset the positive impact of volume growth and escalation. However, the continued focus on efficiency improvements is designed to mitigate this impact. Moving to Bulk.

The underlying EBIT improved from $14 million to $44 million due to higher revenue with new volume growth and revenue quality impacts. The Bulk business, excluding iron ore, is now EBIT positive, which is a great result and demonstrates the work the Bulk team have been executing on the turnaround. Bulk East earnings were higher, primarily from the Linfox contract and increased volumes on the Glencore freighter.

In the West, volumes were broadly flat with higher export bauxite volumes offset by lower iron ore railings, mainly Mount Gibson. Bulk is railing spot volumes for Mount Gibson post-cessation of the haulage contract back in January 2019. This is expected to continue until June this year, albeit at a reduced rate.

Revenue quality in Bulk has benefited from some minor contact variations, the expiry of a rate relief arrangement for an iron ore customer during the second half of FY19 and CPI impacts. Operating costs have increased due to growth in new contracts, but this has been partly offset by ongoing operational efficiency benefits. The impairment benefit of $9 million on the bridge is due to the improved performance of Bulk East resulting in sustaining capital no longer being expensed to the P&L. We indicated this was a possibility six months ago and are pleased to make this decision, further reinforcing the turnaround of the business.

It is worth noting that even if we exclude the impacts of the impairment benefit this half, the Bulk business, excluding iron ore, is still profitable. In terms of the second half, the new IPL contract has commenced in January and is on improved commercial terms. The benefits from this will be offset by the cessation of the GrainCorp contract, which occurred during the first half, a ramp down in volumes for Mount Gibson and general seasonality for other Bulk customers. Therefore, we anticipate the second half EBIT to be slightly lower than the first half.

With the introduction of contracts like Linfox and now the Rio ballast work, Bulk has several contracts invoiced on services, not tonnes and NTKs. Therefore, volume-related metrics are becoming less meaningful. Accordingly, we have removed some operational metrics from the reporting.

Moving to Network. Access revenue has been booked this half based on rail tonnes and tariffs that reflects the UT5 combination DAAU, which combines both the outcomes from the approved UT5 Undertaking and the volume reset for FY20 of 240 million tonnes. This includes an increase in the WACC from 5.7% to 5.9% from the initial date of 3rd of May, 2019. Volumes were flat against the prior period at 116.6 million tonnes for the CQCN.

Turning to the EBIT bridge. Track access has increased by $31 million. To assist investors, we have provided a detailed breakdown of this amount on slide 76, as there are several moving parts to this including the impact of high tariffs, the reversal of the UT5 final decision true up in the prior period, and revenue cap impacts in both halves.

Other revenue increased $8 million, principally related to higher external construction works. Other operating costs increased $5 million, largely relating to CPI impacts for labour costs and higher energy and fuel costs, partly offset by reductions in consumables and other expenses. Depreciation increased $5 million due to ballast and asset renewals. In terms of the full year results for FY20, we've included on slide 77 the usual maximum allowable revenue bridge with updated numbers following the various submissions and adjustments that have occurred. This indicates a total maximum allowable revenue for FY20 of $937 million excluding GAPE. This includes bringing forward the $12 million revenue cap adjustment for FY19, which was done to support the volume reset this year, noting this is only a timing impact, and while adverse this year, it is a positive for FY21.

The bridge assumes no volume variance and no performance rebates are payable. It also assumes a Report Date of March 2020. As a guide, for every month delay in the Report Date, the impact on MAR is approximately $2 million, representing the 40 basis point uplift in WACC.

Moving to capital expenditure. Capital expenditure for the half totalled $230 million, and we now expect FY20 total capital expenditure to be lower than indicated six months ago, in a range of $500 to $530 million. The $20 million reduction includes changing timing for growth capital, namely wagons. We've received the first set of 66 wagons, and the second instalment of 66 are in transit from China. We expect the second set of wagons will be delayed, with the manufacturer calling FM, as they are built in the Wuhan province in China.

Growth capital in the half was $11 million and includes the purchase of the new coal wagons just mentioned. We expect sustaining capital for the second half of the year to be higher with the completion of works on the Jilalan Yard. Our expectation for FY20 does not include any assumption for capital related to the initial capacity assessment as part of the approved UT5 Undertaking. With an expected Report Date mid-calendar 2020, any capital that may be required will fall into FY21. As a reminder, this could be a one-off commitment of up to $300 million. Long range expectations for sustaining capital remain around the $500m per year mark.

At the FY19 results, we outlined the new legal and capital structure proposed for the Group. Our objective was to create a simplified structure that allowed us to optimise the balance sheet. This process is now largely complete with a change in ownership of Network from Operations to Holdings and a new credit rating for Operations confirmed at BBB+/Baa1. Network has retained its ratings and the Group rating has been withdrawn. This structure, as shown on the slide, allows for separate credit ratings and funding structures for each business. The thresholds provided by the rating agencies are consistent with what we communicated at the FY19 results, and the Group will have approximately $1.2 billion of additional funding capacity with the debt to be added progressively over time in order to more effectively manage the execution.

This is a great outcome for the Group and will unlock significant value for shareholders. The increase in the buyback announced today has not impacted this amount. The final remaining task is the revocation of the existing deed of cost guarantee and the establishment of a new deed of cost guarantee for the consolidated operations group. This will take place later this month.

On funding, our priority in the next few months is the refinance of the $525 million AMTN which matures in October 2020. We will be looking to refinance in the most favourable markets, noting we have a bias to longer-dated tenors of at least 10 years. During the half, we issued an $82 million private placement to a Japanese investor at a fixed yield of 2.9%. This was a great result, especially given the long-dated term of the bond to March 2030.

In terms of interest rates, the Group's interest cost on drawn debt is 4.5%, and 94% of the debt is fixed until the end of FY21, in line with the original UT5 final decision. Given the approval of the UT5 Undertaking, hedging out FY23 is ongoing and is around 60% fixed at this stage, with the objective to align with the WACC reset. We expect that cost to trend lower given current market conditions. However, this will take some time to see in our interest costs given the current hedging profile. Thank you, and now I'll hand back to Andrew.

Andrew Harding: Thanks, Pam. Turning now to the financial outlook for FY20. In August, we provided guidance for the Group of $880 to $930 million for underlying EBIT, and today's result prices is comfortably within that range. We have reduced our Coal volume assumptions for the year down to 210 to 220 million tonnes, but this impact is offset by the strong Bulk result. As per our normal practise, we do not assume any impacts from one-off events like weather. This also extends to any potential impact from the emerging Coronavirus in China.

And finally, a summary of key takeaways. Aurizon has delivered a solid first half FY20 result. Over the last 18 months, the Coal business has de-risked the contract book with only nine percent of contract volumes expiring in the next three years. This includes the extensions of the Coronado and Peabody contracts we are announcing today. Coal is now focused on achieving excellent service delivery and exceptional performance.

Operational efficiency improvement is at the heart of this, not only for Coal but the whole business. There is a substantial pipeline of initiatives that the business is targeting. The focus on efficiency improvement will not reduce.

Bulk is performing ahead of the expectations that were set when we commenced the turnaround process back in 2017. This success continues with the new contracts announced today for Mineral Resources and Rio Tinto. There is still more work to do, but we are confident of Bulk's ongoing position in the Aurizon business as it transitions from turnaround to growth. On Network, we have now received QCA approval of the ground-breaking UT5 Undertaking. Our focus continues on delivering the benefits from this deal for the whole coal supply chain and our shareholders.

We've implemented the new legal and capital structure for Group, which will unlock future value for our shareholders. We also continue to deliver for our shareholders today with an increase in the dividend of 20% and an increase to the buyback programme of $100 million to $400 million. This brings the total shareholder distributions to more than $2 billion over the last three years. I now welcome your questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. Your first question comes from Owen Birrell with Goldman Sachs. Please go ahead.

Owen Birrell: Hi guys. Yeah, thanks for a good result. A couple of questions from me. Firstly, just looking at Coal, you've pushed the contract expiry out reasonably considerably. I'm just wondering if you can give us a sense of the actual rate decline that you're seeing on those new revised contracts.

Andrew Harding: Ed, I might hand that question to you.

Ed McKeiver: Yeah, thank you. I can't talk about the arrangements, the commercial arrangements and the rates themselves. What I can tell you as we have for some time there, we're certainly seeing a downward rate pressure as legacy contracts that we re-contract are done in a more competitive environment, and we're able to pass on some of our cost savings to our customers.

Owen Birrell: Okay. And second question for me on rail grinding. I assume that business was part of the Coal segment. Can I just ask... That's now concluded at the end of October. Can you give us a sense of the earnings impact of that service? I assume that you obviously have to outsource that service now. Can you give a sense of what the impact will be either on a pro rata basis for FY20 or an annualized basis?

Andrew Harding: Yeah. I'll get Pam to explain the framework for that change.

Pam Bains: Hi. Rail grinding is actually not included in Coal. It's included in Other. And I mentioned last year the full year impact of rail grinding sale is $15 million on EBIT. At the half it was sold at the end of October, so you have four months' results compared to the prior half and impacts about four to five-million.

Owen Birrell: So next year we can assume it'd be roughly $11 million that is an additional cost to the business?

Pam Bains: Yeah, full year EBIT is about $15 mil.

Owen Birrell: Yep. Okay. And just finally on the Bulks, the decision not to expense the CapEx in this half, can you give us a sense of what that amount was that we've seen in the PCP that's not in this period? And I assume that that additional CapEx is still within that lower CapEx guide as you provided?

Pam Bains: Yes, the CapEx is $9 million for the half, and yeah, the capital forecast includes the Bulk component.

Owen Birrell: Okay, excellent. Oh, that's just questions for me so far. Thanks.

Operator: Thank you. Your next question comes from Anthony Moulder with Jefferies. Please go ahead.

Anthony Moulder: Hi, good morning all. If I can start in revenues for Coal, revenue per NTK growth of 3.1% includes that benefit of take-or-pay revenue, given no

NTKs. Wondered if you're able to provide a revenue per NTK growth for the period based on activity?

Andrew Harding: Ed, do you want to have a go at that?

Ed McKeiver: Yeah, I'm not sure I understand the question, actually. Could you rephrase it for us?

Anthony Moulder: The revenue per NTK in this period would have included a benefit of revenue that didn't have NTKs revenue protection or take-or-pay protection. I wondered is there a figure that you can give us of growth for this half that didn't include that?

Ed McKeiver: No, I cannot comment on that.

Anthony Moulder: Okay. The comments that you made Andrew about revenue growth to be limited in Coal, are you still expecting revenue per NTK on an activity basis to be positive?

Andrew Harding: I think I was confining my comments to... I'll go back and state where we worked up to from a strategic point of view. When we confronted the market, and we could see that there was some downward pressure on rates and also the value to us of extending contract tenor was apparent. We said about two years ago, 18 months to two years ago on a strategy to actually execute longer contracts, recognising that we would need to meet the market because that's how rates are set, and we've executed against that. And what you can see is the end result of that is the longer tenor. We have pointed out for some time that there was a downward pressure on rates, and that we see the impact from a revenue point of view is that revenues for the next few years you would only see moderate growth in revenues, basically because the volume benefit and the contract escalation benefits don't by themselves completely mitigate the impact you do from the recontracting.

The focus then turns to the need to, as we have put a lot of pressure on our cost management for a number of years. It continues to be something that we actually have to focus on in the years that are coming. We have a number of long multi-year projects that are underway and will continue to be underway for some time to deliver further cost benefits. Those projects include names that you will have heard many times before from operational projects like Project Precision, Technology projects, like the Train Guard project as examples.

Anthony Moulder: Can I ask you to talk to one of those? The Precision Railroading project that I think back in 2018, you give a figure of $50 million benefit by the end of fiscal '21. Obviously trials still continuing this year, but you still confident of that figure being delivered next financial year?

Andrew Harding: Well, actually I might ask Ed to talk about how he's seeing it from Above Rail point of view, and then Jason from the Network point of view. Ed?

Ed McKeiver: Yeah, thank you, Andrew. Thank you for the question. I expect as we've moved into the Blackwater in recent months, and we've been doing the trial. We've certainly seen that the benefits are the opportunities are there. There's some numbers quoted in the 4D which you can see the improvements, some of the improvements we're seeing. My expectation is where we get the run rate of those benefits come the end of the financial year, and it'll depend on other things including supply chain performance in relation to the overall savings for the year, but we're pushing on.

Jason Livingston: Thank you, Ed. Yeah, from the Network perspective, as we expected, moving from Moura into the Blackwater system was always going to be challenging due to the complexity and the larger scale of the Blackwater system. However, as Ed was just mentioning, we certainly see the benefits of actually rolling into the Blackwater system, and working through this more complex arrangement is definitely progressing well.

Anthony Moulder: So that's run rate by 50 million, above 50 million by fiscal '21, end of fiscal'21?

Andrew Harding: Yes, that's correct.

Anthony Moulder: Yeah. All right. Thank you.

Ed McKeiver: I'll just probably add that it's not necessarily a cost out, it could potentially be a release of capacity and therefore a revenue benefit.

Operator: Thank you. Your next question comes from Matt Ryan with UBS Investment Bank. Please go ahead.

Matt Ryan: Thank you. Maybe just the first question for Pam on debt funding rates. It seems that ESG concern has been creeping a little bit around the place, are you seeing any change in what lenders are able to borrow to at? Obviously, can see that you've done a deal recently, but how are you thinking about the larger deal to come in October?

Pam Bains: Yeah, I think your comment is correct. We have recently seen a private placement at long tenor, 2.9 percent. At this stage, we haven't seen any reason to be concerned, and we're looking to refinance the bond that's due to mature in October in the second half, so nothing at this stage.

Matt Ryan: Okay, thank you. And then maybe just a little bit of a broader question on the buyback. Just curious on, I guess, how you're managing that. Maybe not for this year, but moving forward, what are you taking into account in regards to debt metrics and the share price, or anything else when you think about the timing and quantum?

Pam Bains: Yep, all of the above. We think about the metrics and as we've talked about, the new ratings in place for both Network and Operations, BBB+/

Baa1. We manage to that, and we will progressively work through that $1.2 billion to ensure sensible execution.

Matt Ryan: Okay, thanks. And just a quick one to finish on the train derailments in January, can you make any comments on any impact to volumes there?

Andrew Harding: Ed, do you want to talk about the train derailments?

Ed McKeiver: Yeah, certainly. Thank you, Matt. We had, as you well know... I presume you're talking about the derailment at Middlemount where we experienced what looks to be a heat-related infrastructure failure. First, most importantly, nobody was hurt as a consequence of the incident and we were able to recover the track reasonably quickly. The ensuing cancellations ran into the dozen or more. In that kind of order, we've managed to make up some of those with additional services since, and up and running again now.

Matt Ryan: Thank you.

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

Paul Butler: Good morning. I just wanted to ask again about the competition or the competitive pressure that you are seeing putting pressure on rates in the Coal business. That seems to be you're highlighting that a bit more than you were six months ago. I recall then you'd won a couple of contracts and were saying that you hadn't taken any cut to pricing then. Is the pressure you're seeing in both New South Wales and Queensland, and is there anything that's changed in terms of competitive dynamics? Is there an extra player in either of those markets?

Andrew Harding: Yeah, sure. Thanks very much. We've been talking about the pricing pressure for some time, much longer than six months ago. That's been no surprise. The competitive market paradigm is the same as it was when I first started in this business three years ago. There has been, I suppose, a number of years ago there was speculation about Genesee and Wyoming entering in the Queensland market. It's fair to say while they don't come and advertise with us what they're doing, there are a number of good market signals to say that they are actually doing that and entering the Queensland market, although the exact detail is not something that I can readily share or even know with any certainty. But our long-term plans, when we think it from a strategic point of view in a 10-year planning process, we do assume that there will be another competitor in the Queensland market at a point in time.

I think I would say that we've actually not... We have spoken about the pricing pressure previously. The reason that I stated in my remarks at the beginning more clearly about the impact on revenue is that in prior periods, we've said we're in the process of doing this re-contracting, it's not appropriate for us to actually share the impact on the business. Now that we're actually very close towards the end of that whole process, it is appropriate for us to start sharing how we responded to that strategic challenge impact from the business and giving you some sense of what to expect in coming years.

Paul Butler: Can I just ask, your comments about GWA, is it that you're aware that they are active in bidding in the market, or are you suggesting that they've potentially won a contract in Queensland?

Andrew Harding: Okay. Well, what I'll do is I'll get Ed to talk as appropriately as he can about the market intelligence we've received. Again, I position this as market intelligence that we received and not written documentation that is posted to us by Genesee and Wyoming. Okay?

Paul Butler: Thanks.

Ed McKeiver: Thank you Andrew and thank you Paul. There's no secret that Genesee and Wyoming have looked to enter the Queensland market. There's been ads in the paper looking for drivers and we know there's a locomotive on the back of a flatbed on the way. The intel that I have as a competitor and in the region is that they're bringing a train, and I'm not aware that they've won any or signed up any business for that consist yet, so it's early days. We're not sure where they're going to be based. One thing I can say is we've been on the front foot with our re-contracting, as Andrew was just talking about with the announcement today about Peabody and the announcement about Glencore at the last half, and of course a long-term BMA contract in place. We've largely got our re-contracting risk put to bed for the next decade in the Goonyella system.

Paul Butler: Okay. Just a couple more questions. On the Bulk business, it's clearly a very strong result there. Can you talk to the sustainability of that level of margin performance? You gave us the detail about the Min Resources contract and I think it was the Rio Ballast cleaner contract for three and four years, but is there anything else that's contributed to that result that is of a shorter-term nature?

Andrew Harding: Okay. Well look, I'll get Clay to take us through his thinking from a sustainability point of view to the Bulk business.

Clay McDonald: Yeah, thanks Andrew. Thanks Paul. I guess let's start on H2. Pam gave a bit of an insight into that, but first of all, we're focused on the safe and successful start up of MRL and Rio ballast cleaning contracts in H2, and we've got some initial costs associated with them that we'll have to take up in H2. In addition to that, we've got the Graincorp business that has come to an end and some uncertainty around some iron ore volume. As Pam mentioned, Paul, we see H2 being slightly softer than H1. If you look forward, I guess the Bulk business has been very focused on the turnaround and getting the business fundamentals in place. Now, those fundamentals around a strong safety culture, service delivery, good service delivery for our customers, asset utilisation, commercial contracts, and finally, a sustainable cost base. We're still a work in progress. Plenty of opportunities still there, but we're pleased with the progress we've made.

Paul Butler: Okay. And just one last one on free cashflow. In the free cash flow of $465 million, I think there's $165 million of the benefit from the rail grinding asset sale. It looks like on an underlying basis, we've seen a decline in free cash flow. Just wonder if you could explain what's driving that?

Pam Bains: From our operating activities perspective, there were some swings between debtors, creditors, and a slight uplift in inventory. We brought in additional inventory for our rail grinding and control systems work, together with some parts for our overhaul activity. They are a couple of the things that might've contributed, and obviously you've got the movements between the true-ups in prior year compared to current year as well.

Paul Butler: Thank you very much.

Operator: Thank you. Your next question comes from Jacob Cakarnis with Citi. Please go ahead. Jacob, your line is now live. You might have yourself on mute.

Jacob Cakarnis: Thanks guys. It's quite a crackly line on my side, so apologies for that. Can we just get a little bit more comment on the outlook for Coal costs and where there are options to remove costs there? And Pam, maybe you could just highlight which parts of the cost base you're experiencing inflation in the first half, please?

Pam Bains: Yep. I'll comment, and then happy to let Ed add any additional comments. In the first half labour costs, we've got CPI and also uplift in drivers. We were getting prepared for higher volumes in the first half, which obviously won't reoccur in the second half, but we have anticipated higher volumes. And in terms of sort of more broader outlook... Sorry, I'll just also comment on maintenance. Maintenance costs were slightly high again, reinstating some of the rolling stock. We should see that sort of level out through the full year. In terms of the broader outlook, I'll let Ed comment. As Andrew has touched on, there are a number of technology multi-year projects and otherwise, like Project Precision that will drive the cost down going forward.

Ed McKeiver: [crosstalk] Thank you, Pam. I'm sorry, Jacob. Did you have another question?

Jacob Cakarnis: Yeah. [crosstalk].

Ed McKeiver: I was just going to build on that.

Jacob Cakarnis: Yeah, sorry. I just wanted to ask Pam. The FTEs looked like they fell two percent in the first half, but we're saying that we've got higher labour cost. Is that high unit labour cost, and is there anything in there that I should think about, about optimization or drivers?

Pam Bains: No, not at this stage. We did have a renegotiation of the EA, and then CPI impacts as well as some increase in Coal FTE.

Ed McKeiver: Yeah, two to two and a half. And as Pam said, Jacob, I'm not sure where you're picking that number up, but coal FTEs grew marginally in order to support the new volumes we expected. I might just comment on some of the focus we have on the cost line to mitigate the pricing pressure we talked about, and also maximise the EBIT over a multi-year frame. We've had some, quite some success this year with our business in terms of some of the productivity projects, including extending our trains, reconfiguring them for a two percent uplift in payloads. And we've seen velocity improvements in the CQCN of about four percent, and 100km running in the Gunnedah Basin has also delivered us a productivity dividend. We've got our investments in reliability are flowing through to, what was it, 13 percent improvement in wagon reliability in central Queensland and a 10 percent improvement in local reliability in New South Wales, and that's underpinned a 35 percent reduction year-on-year cancellations for the entire New South Wales business. There's still plenty of opportunity from a cost management perspective.

Longer-term multi-year technology projects, we've got a trifecta of Train Guard, TrainLink, and Train Health. They're actually named by our employees, these projects. But Train Guard is the most significant of them in that it will allow us to implement train stop and speed control technology on the train, on the fleet. Good for safety, good for productivity, and also a pathway to driver only operations and in our core corridors. Train Health, of course, will give us the ability to see real-time diagnostics in relation to engine performance and driver performance. And TrainLink will allow us to move into a contemporary and modern rostering environment to be able to manage variants in the day. So lots of opportunity.

Jacob Cakarnis: Thanks, Ed. Just one final one while I've got you, please. Was there anything in the EBA that was struck about the movement to driver-only, and is there any way that we should think about how that timing can be realised?

Ed McKeiver: In relation to the EA, for some time actually, we've had driver-only approved in our enterprise agreements, and that's particularly when there is a technology to ensure a safety control, so that's not a risk to us.

We've also been quite transparent with our workforce about that. I must say, at this stage, we're still in the development stage with a trial to be run in the next three months, a live trial. It's only post that trial in that we've convinced ourselves of the viability of the technology where we move forward to consult with our workforce on a proposal capable of implementation.

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

Rob Koh: Hello. Can you hear me?

Andrew Harding: Ah, yeah. Thank God.

Rob Koh: All right. A lot of buildup there and I've got a really boring question. I wanted to just make sure I understood how to think about the CapEx guidance for this year. My understanding of what you said is that there has been some kind of delay of expenditure from the first half into the second half because of Wuhan related delays, but you have actually also deferred some of the growth CapEx. I was just wondering if you could just confirm if that understanding is right and then give us some colour on what projects you've deferred?

Pam Bains: Yep. We have updated our guidance to $500 to 530 million, so reduction of $20 million, which largely relates to growth capital. That $20 million is a judgement based on the timing of the arrival of wagons. We have received half the wagons, or certainly half, some are here and some are in transit, and we expect the second set of wagons to be delayed because the manufacturer called FM. However, exact timing is not known, so we expect some of the growth capital to drop into FY '21, hence the reduction of $20 million on the range.

Rob Koh: Okay. All right. So it's primarily just the FM and Wuhan that's caused the change to guidance. Is that right, Pam?

Pam Bains: That's right, yes.

Rob Koh: Yeah. Okay, cool. And I guess sadly while still on the topic of FM, I guess there have been some FMs called on gas import contracts. You hearing anything about coal import contracts, and if there were to be the FM called, and that's a big if, what would be the impact to you guys?

Andrew Harding: That is definitely a big if. Our assumption for the year that we lowered by 10 million tonnes took into account all the most recent information we had from our customers, and their expectations of what they were going to be requiring us to deliver for them. We have no more up to date information than what's put into the algorithms that generate that range that we actually state. So I can't comment any further than that, really.

Rob Koh: Thanks Andrew. Just last question. I noticed your comment about the Bulk business changing its competitive dynamic over time through the good work of your team there. Can you comment on how you've priced the products versus road products, and also how the carbon intensity of the rail product versus the road product compares?

Andrew Harding: Will do. Actually that's a topic, that's close to Clay's heart. I'll get him to talk through that.

Clay McDonald: Thanks very much. I mean as Andrew and Pam mentioned, the Bulk business is very different to the Coal business, and that is that we are in a competitive market that includes road. So I mean we don't really look at going head to head with road transport. We look at the whole supply chain, and what competitive advantage do we have in rail if you think about long haul, heavy freight, particular bulk products.

Now road and rail had their place in the supply chain of bulk products. But we look at that sort of sweet spot for rail, which is normally longer distance, heavier products. And in a certain vicinity of our land and locations. It's a dynamic we think about, and we can't compete for everything, where there's not infrastructure there, or road haulage just matches the product requirements. But we're kind of in slightly different markets in that regard.

Andrew Harding: And look, it'd be worth adding that rail generally emits about 75% less greenhouse gas, or has 75% less greenhouse gas emissions per tonne of freight moved when it's actually compared to road. So it's quite substantially benefited at this time.

Clay McDonald: Rob I think the other thing worth mentioning is road and rail policy, and Andrew's worked really hard on road and rail policy over the last sort of 12 to 18 months, and you'd be aware we had some really news from the Queensland Government where they considered that the road rail policy was inequitable on the Mt Isa line and have made some significant adjustments in favour of supporting rail for certain products on the Mt Isa line.

So subsidies in place for those bulk customers that use that lines. We can continue to pursue those sort of opportunities in other states and look forward to further support there.

Rob Koh: Yep. Sounds very good. Thank you very much guys. That's all for me.

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

Scott Ryall: Thank you. That's two in a row. I had a couple of questions. Firstly, could I just get a sense of from the discussions that you've been having with customers on the network, whether there is any requests for meaningful capacity additions over the coming three to five years please? And I'm very conscious Andrew, of your outlook, your 1 to 2% outlook in terms of volume growth. I'm just wondering whether you're seeing any early discussions on capacity that we should know about. Thanks.

Andrew Harding: I'm going to get Jason to follow me up on that on the answer. I just need to preamble it with, we can't actually talk about any specific, and I know you know this Scott, but we can't actually talk about any specific customer requests but if, Jason can give some indication of [crosstalk]

Scott Ryall: Mine's a general question. I don't want you to comment on the [crosstalk].

Andrew Harding: Yeah, general question.

Jason Livingston: I think generally I'd say that there's green shoots interests out there. So there's definitely customers who are looking to make use of the network.

Scott Ryall: And then maybe I'll follow up and this is kind of Network and Coal a question that the Network over the last 18 months has recorded a growth in tonnes and NTK and your Coal business has not, are you comfortable that this is due to customer specific issues for Aurizon as opposed to loss of market share in Queensland?

Andrew Harding: Maybe Ed I'll get you to address that question you've had to answer it many times before.

Ed McKeiver: Yes. Thank you Andrew. And thanks for the question, Scott. No, very comfortable in short. There's three of our customers particularly they've had a tough first half and publicly disclosed BMA brought major wash plant outages forward into the first half. North Goonyella for Peabody is down and will be down for longer than anybody hoped or expected. And we've also had some volume gap in our system with Batchfire. Otherwise, we've made up some of those volumes and that explains why we were down 2.1 on previous comparable period.

Scott Ryall: Great. And then just following on it, Ed this is probably for you, you've talked about some of the Coal efficiencies, payload and velocity increases and could equally look at locomotive productivity and wagon productivity. It's hard to know sometimes with some of these operational metrics, which one is the single most important. So I guess the one I look at mostly is opex/NTK excluding access costs, which since you've changed your reporting a couple of years ago, has increased each period.

Scott Ryall: So if I take that as the ultimate of you guys delivering efficiency gains in the Coal division, when does that actually start to improve or at least see that costs will grow by less than revenue growth?

Ed McKeiver: Thanks. In relation to opex excluding access, I mean we had a ... I mean the reason that's one of the key drivers of that increasing in this half PCP is because of the NTK impact of course. As Pam mentioned earlier, we've seen about a $10 million escalation in costs over a lower NTK base, roughly half because of maintenance that's bringing and all essentially associated with either the 2.5% increase in wages in relation to the EA or bringing on capacity to deliver the growth that we expected that didn't show up in the half, particularly train drivers and particularly reinstating 4000 locomotives.

So, really I'm not concerned as the volumes present in the going forwards. We should, I expect that to fall back in line with longer term and then be improved on as we implement the technology projects.

Scott Ryall: Great. That was exactly my question. Could you just confirm or pose just on the EA process, the EA has now been ... Oh no, it's been approved by say worth. So it's in place. Sorry, I've missed that bit. All right. On the Bulk stuff, maybe it's a question for Clay and it follows on a bit from Rob's question I think. What ... How are you guys thinking about the market opportunity in terms of size for your Bulk business please?

And you don't have to get super prescriptive, but just in terms of where you are, are you pretty comfortable because I think as Andrew said, you have outperformed your own internal expectations and I suspect most of the market expectations there. So what ... I'd be interested in terms of where you see the opportunity set in how long that takes to execute on please.

Clay McDonald: Thanks, it's a question Andrew asked how big can Bulk get? So I guess, we look at it and it's ... and we sort of discarded in the bulk slot. It's a very different market to Coal. So you've got a different competitive dynamic and you've got different customer dynamics. So generally customers, smaller volumes, smaller size operations, they're price sensitive. We have some operators that swinging and swinging out on commodity prices. And then you talk about the sort of the distance to existing infrastructure and the possibility of building new infrastructure. So there's the sort of the dynamics that play out.

How big can it get? Well, we've got growth aspirations within Bulk to be larger than we are today and a more significant part of the Aurizon portfolio. But forward looking guidance as far as revenue and EBIT at this point in time we, we can't provide it.

Scott Ryall: All right. Andrew, one last question. Obviously, you had a fatality in the first half and I know that hits pretty close to you. Can you just tell me what you as the CEO does when that happens please?

Andrew Harding: Sure. And it was, I mean, as you can imagine, it was a tragic event and it impacts on a lot of the workforce in the community and obviously the family. The biggest and the most immediate thing you can do is go and attend the incident site. And then from a corporation's point of view, do our best to represent ourselves at various, I was going to say functions but that's not correct, memorials that recognise the employee and the tragic incident that occurred and Aurizon through Ed and his senior leadership team was extremely well represented at the memorial.

So I attended the site very soon after event to make myself familiar with what actually happened. Very keen obviously and that's respect for the individual and then you've got the immediate concern about what happens, what's the exposure to the business from the event. So what do we know happened that could cause us to actually do things differently immediately to see if we can actually make sure that employees are safe from that moment in time with anything that we know, make sure that there's a general investigation into handling of road incidents specifically.

And then when it comes to the ... actually what happens in the actual fatality. The challenge we've got there is the Queensland Police are actually doing the investigation while Workplace Health and Safety Queensland has actually provided us an outline, provided us with the fact that they're not going to continue their investigation. We're waiting on the Queensland Police to actually provide a report into a cause and it is ... it has not arrived to date.

I mean, and the organisation itself again, provides ongoing support to the family through the incident. I think I'll leave it there. Is that kind of what you're after, Scott to understand?

Scott Ryall: No. That answered my question and then went partway into the next one, which was what have you learned and what has changed? Because I know the ... I know it has been a cause of concern for a number of years. Drivers, train drivers actually getting to and from wherever they need to get on and off the train. Is there anything different that you can do in that respect?

Andrew Harding: So, look, I mean as you well know, for some time we've been saying, we've said and it is still correct that our greatest risks that confronts our employees is the driving of light vehicles on public roads and over the last number of years we've implemented quite a degree of changes, controls, engineering support tools like the in-vehicle monitoring system, so a massive ramp up in how we manage the drivers in light vehicles. Including those fatigue management and many things in that area.

The challenge I have is... to answer your very specific question of what have we learned from this incident is that we asked, we are waiting for the Queensland Police to actually advise us as actually to what they consider the cause of the incident is, because it wasn't immediately apparent to us as sometimes when you actually have these incidents you can actually see very quickly what occurred. This one's more complex than that. I can't say anything more because of the investigation that's on the way.

Scott Ryall: Thank you. That's all I had.

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

Ian Myles: Good morning guys. Congratulations on the results. First is just on Bulk. You talk a lot about the lithium for batteries and the opportunities, maybe give it more colour there and can you actually do that with or without, existing equipment base or would you need more equipment?

Clay McDonald: Thanks. And at the moment we're not lifting any lithium or spodumene products as it is today and you're probably be aware that that market is going through some hard times as the over supply. I think long-term we see a return to growth in that area as sort of the battery uptake comes on now. In regards to opportunities, there's sort of two there can be existing where you aggregate into our terminals and locations, therefore not needing new equipment.

And then there's sort of greenfield opportunities that have got the volume that would support rail. So looking at both those predominantly in West Australia, a lot of projects there. Some of them on hold, some of them still producing. But there's two options there mate to either put them through aggregation or if it needs a dedicated bespoke service, we look at that as well.

Ian Myles: And on the Mineral resources contract, do we have a large cost to bring the trains back in service a bit like the coal contracts where they're coming out of sheds and have to be ... go through a large maintenance programme?

Clay McDonald: At a macro, very pleased to be working with MRL again, very pleased to be back in Esperance. The short answer to that is not a significant or material cost to bring those back on. Most of that equipment was ex cliffs and so, we could redeploy it reasonably quickly back into the MRL contract.

Ian Myles: And then on the Coal side, can you ... We talk about that lower revenue growth side of it and the cost focus. How much of the cost leverage is about hauling more volumes and getting a productivity benefit versus a pure and simple sort of cost reduction?

Ed McKeiver: About 50% Ian.

Ian Myles: The other question I had was you talk about higher costs of labour associated with the volumes not necessarily through turning up, a couple of years ago you made a strong effort in trying to increase the level of casualization for drivers so you could actually flex the system. Why weren't we seeing the benefits of some of that, those attempts coming through?

Ed McKeiver: It proved more difficult than we thought bring casuals in. Often the pool for qualified freight train drivers in Australia is relatively shallow and most because of the demographic of the population they're tending to be the tail end of their careers. And so when those people that are looking for part time or casual based work, have also got a work life balance they're trying to look after. And so the variable nature of our work, particularly with train running led to a sort of real challenge in scheduling and lining up a person's availability to work a casual shift relative to when the work needed to be done.

Ian Myles: That's great. And then finally Acacia Ridge, if you are successful in the dispute with the ACCC actually do sell the asset should we pencil that in the same way the rail grinding business as the proceeds will be added to the share buyback?

Andrew Harding: Ian I think we are entering into a realm that's Board decision territory, so I think I won't speak on their behalf until they've actually made a decision.

Ian Myles: That's fine. Thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Nathan Lead with Morgan's financial. Please go ahead.

Nathan Lead: Good day guys. Thanks for your presentation this morning, just a couple of Ed maybe first and then a couple of for Pam if I could. Just in this half year, what was the impact of fuel costs pass throughs coming through the above rail revenue line to Coal?

Ed McKeiver: Let me just have a look for that. It's relatively negligible. We basically, there was very little variance in this half and with most of the fuel costs being passed through to customers.

Nathan Lead: And then obviously you showed the chart ...

Ed McKeiver: I can come back to that later, with that.

Nathan Lead: ... you showed your ... the chart showing your contract expiries over coming years, how much across that FY 20 to 23 range do you know that you've actually lost?

Ed McKeiver: We haven't ... We don't know that we've lost any of them mate. So there's still a number of tenders in play for, you'll see on that page, I think it's page 63 that we've got 9% down from 13% of our now expiring in the next three years. There's tenders in play for that business, but none of them have been decided yet.

Nathan Lead: Right.

Ed McKeiver: So none have started yet.

Nathan Lead: All right. Just want to confirm something. Just where you're talking about the three years of relatively limited above rail revenue growth coming through there. Is that off FY19 or FY20 base? Because obviously you've got a bit of a step up in your contracting capacity coming through this year.

Ed McKeiver: Off of a 19 base mate.

Nathan Lead: And then maybe just a couple for Pam if I could just head count within the business, it looks like it's declined in first half 20, was that a full half year benefit coming through from the headcount decline or is it come halfway through or something?

Pam Bains: Nathan, the headcount increased, so we saw two areas of increase. We saw support areas come down. Coal increased because of the volume growth and then also Bulk with the Linfox and Glencore contracts and also obviously starting to think about MRL ramp up. So we actually went up.

Nathan Lead: Right. Sorry, I've misread that entirely wrong. Can you talk then just about how much staff you've actually got within the Network business and what you sort of get in terms of target headcount going forwards?

Pam Bains: We don't provide a split Nathan. We do have the total FTE in the 4D.

Nathan Lead: That's what I was ... I'm asking for the split out just so we could get an idea of just maybe how much that could come down to cost out.

Pam Bains: No, we don't tend to split that Nathan.

Nathan Lead: And then just within the half year, obviously you called out the external construction works that came through benefited the revenue line. How much of a cost impact did that actually have in the period?

Pam Bains: It's not material. I don't actually have the cost impact but again, they're sort of one off. So I wouldn't be able to give that now but I can certainly come back to you if needed.

Nathan Lead: Do you have a sense of how well you running on that sort of cost basis were there regulatory allowances?

Pam Bains: Other than what you can see in the pack there were some reductions in cost around legal, obviously UT5 coming off and certainly in the maintenance space, there were some uplifts, but again, I think when you look at our Undertaking, we're slightly below what the allowance is. It's not an easy to see on the actual slide pack.

Nathan Lead: Yep. Thank you.

Operator: Thank you. Your next question comes from Anthony Longo with CLSA. Please go ahead.

Anthony Longo: Good morning Andrew and Pam, I'll try again. Can you hear me?

Andrew Harding: Yes we can.

Pam Bains: Yes.

Anthony Longo: Fantastic. I wasn't on mute and I wasn't on a handset, which is ... which was helpful. So it's typically a trap for young players. First question ... sorry, mate. First question from me. Just looking at the Bulk business excluding iron ore, so I think in the pack you mentioned a couple of times that excluding iron ore it's positive to EBIT, but iron ore is negative. Are you able to give colour to the extent to which excluding iron ore the business is positive at an EBIT level?

Andrew Harding: No. Pam do you want to ... I think that's more your space?

Pam Bains: It's just as they're excluding, they are all profitable now.

Anthony Longo: So to what extent is iron ore negative?

Pam Bains: No, iron ore is positive as are the two Bulk business. In the past iron ore has been positive and we have had a negative in the Bulk space, so they are now all profitable.

Anthony Longo: No problem. Sorry about that. Looking at the Bulk turnaround. So you mentioned those results were ahead of plan. Are you able to talk through what some of the targets were on that front and the extent to which some of those efficiencies did contribute to that result in the first half 20?

Pam Bains: I'll make a comment and then Ed, sorry, Clay can certainly add to that. In terms of what our expectations were, we didn't ... we don't provide guidance on a BU by BU basis. They are slightly ahead, some of which is the cost transformation, which continues. But as you can see from the updates, there were new contracts that came into play so we wouldn't have anticipated last year the MRL contract and we are now ... we see the IPL contract starting from the ... from January and we have the MRL and Rio contract.

Clay McDonald: You can see from the bridge, the contribution of volume through Linfox, Glencore and uplift in volume with Aloca export bauxite. So, that was the \$26 million. You can see the revenue quality coming through from a couple of iron ore contracts and we had some additional services that we are providing to our customers that we started to rail and then general uprating through our customers. You can see the quality coming through there at 12.

To bring on that additional volume cost us about 22 million. If you think about all the costs plus CPI yet the hit is about 17 million. So you can see the benefit of our cost transformation at about five for the half. So continue to focus on that. And then you've got the impairment benefit. So that kind of covers off the H1 and we've talked about H2 going through being a bit softer than that result.

Anthony Longo: Great. And last one from me, so looking at, so I noticed NTKs is no longer given for Bulk. Are you able to perhaps give more colour on I guess average haulage links that you've seen? Is there anything from a contract perspective that has seen that level change and you did touch on some of the service work that you are doing in the segment? I mean how should we be thinking about the revenue split across those two going forward?

Clay McDonald: It's such a ... we're such a diverse business in Bulk and we've got a bunch of internal metrics that we obviously track and look to perform to a corridor by corridor and customer by customer. When you aggregate them all up, it's pretty difficult to get some sensible metrics that we could put up on a presentation today. They're just so diverse. You think some are based on train services run, some are based on tonnes, NTK, we've got additional revenue coming through from lift and trucking parts of our operation.

So internally very much got a bunch of metrics the GMs are held accountable for but externally difficult to sort of distil it down to one or two. Does that sort of answer your question?

Anthony Longo: Probably not really, but I guess we can take it off line.

Clay McDonald: [crosstalk]. So what are you after?

Anthony Longo: I just wanted to get a sense for how we should be thinking about our top line growth in terms of the volumes as well as I guess how much at risk is that service revenue going forward? Is that something that we're now expecting that top line to be really volatile and volatile over time or how should we ultimately be thinking about those forecasts?

Clay McDonald: I think we, like we covered H2, so slightly softer. You've got MRL coming on, Rio coming on, Graincorp dropping out, Iron Ore volumes possibly impacted by price. I think as Andrew and Pam covered it, it's a very different business to Coal. So the volume and the earnings are, I wouldn't say very volatile, but contracts are shorter and sometimes there's a greater risk position in Bulk than there are in other parts of the business.

So, I wouldn't say volatile. I'd say there's a ... we're looking for a growth profile there, but very much different to the steady earnings of Coal.

Anthony Longo: That was perfect. Thank you. And last one while I've got you on the Bulk slide, you did talk to a number of new contracts that were announced. Are you able to essentially as a parcel without, I guess, identifying any particular customers, what that revenue opportunity is of those new contracts that you have signed?

Clay McDonald: I don't think we talked to materiality of those two contracts. Overall in Aurizon not material for Bulk material, but they'll be good contributors to the Bulk West business, in half two and going forward.

Anthony Longo: That's great. Thanks very much.

Operator: Thank you. There are no further questions at this time. I'll now hand back for closing remarks.

Andrew Harding: Well, look, thank you very much everyone for joining us for this session and for all your good questions. I look forward to the many follow up questions we'll get over the next few days. Thank you very much. Bye.

[END OF TRANSCRIPT]