Andrew Harding: Managing Director & Chief Executive Officer

Good morning and welcome to the full year results for the 2022 financial year.

We are based in Brisbane today therefore I acknowledge the Traditional Custodians of this land, the Turrbal and Jagera people, and pay my respects to the elders past, present and future for they hold the memories, the traditions, the culture and hopes of Aboriginal Australia. We must always remember that under the ballast, sleepers, rail systems and office buildings where Aurizon does business, was and always will be traditional Aboriginal land.

I am joined on the call by:

- George Lippiatt – CFO
- Ed McKeiver – Group Executive Coal
- Clay McDonald – Group Executive Bulk
- Pam Bains – Group Executive Network; and
- Gareth Long – Group Executive Corporate

We will shortly go through the presentation that we lodged with the ASX this morning which is also available on our website.

At the end of the presentation, we will take your questions with the rest of the executive team.

Turning to safety performance.

SLIDE 3: SAFETY PERFORMANCE

I am pleased to report a continued improvement in our *total recordable injury frequency rate*, which encompasses all reportable injuries including restricted work injuries.

We have also seen a significant improvement in Rail Process Safety, down 17% compared to FY21. This measure records derailments, signals passed at danger and rollingstock collisions, of which a large portion are low consequence yard events.

There has been an increase in *Lost Time Injuries*, but this has been driven by lower severity injuries such as muscle strains. Localised injury prevention initiatives continue to be implemented, to address these events.

As noted at the half year results, a fourth measure, *Potential Serious Injury and Fatality Frequency Rate* has been introduced to more accurately represent our business. Whereas RPS is limited to rail operations, SIFR covers *all* operations, including our expansion into additional parts of the supply chain such as port terminals.

This measure shows the number of events, as represented per million hours worked, that had the *potential* to cause, or *did cause*, a serious injury or fatality. No serious injuries were recorded during the year, with the measure therefore consisting solely of events that had the *potential* to cause serious injuries.

As we integrate the OneRail Bulk business, our focus on the safety of our newly extended workforce will be a priority. We will take the time to understand the safety management systems before incorporating One Rail within the Aurizon safety performance statistics. In the interim, the existing One Rail targets will be used to hold legacy One Rail and new Aurizon management to account for safety performance. As always, the safety of our people comes first.

Aurizon has not been immune to the prevalence of COVID in the community with a significant increase in the number of employees affected. Having peaked in March this year, we have also seen elevated use of COVID-leave in July, aligned with what we are seeing outside of the business.

Many protocols that were embedded since mid-2020 remain in place to protect the health of our employees amid rising numbers in the community.

Despite COVID-related challenges, our employees continue to show great discipline in both their health and delivering for our customers, which is reflected in the financial results presented today.

Our focus remains on protecting our employees, our customers and the communities in which we operate.

Now moving on to the performance overview.

SLIDE 5: FY2022 RESULTS

The financial results this year demonstrate how resilient the business is despite lower above rail volumes. Group EBITDA was down 1% with Network and Bulk lower, which was offset by higher Coal EBITDA and Other items including the profit on sale of the Rockhampton workshops. Network's EBITDA decline was due to lower revenue, namely WIRP and GAPE fees. Bulk EBITDA declined by $10 million with a combination of lower volumes and one-off costs that I will speak to shortly.

Offsetting this was higher EBITDA for Coal driven by higher revenue yield and favourable cost management, despite a 4% volume reduction. At the group level, asset sales in addition to favourable movement in some provisions linked to discount rates, also positively contributed to the result.

Free cashflow from continuing operations increased 13% to $664m driven by lower cash taxes, the sale of the Rockhampton workshops, and receipt of the prior year's take-or-pay.

A final dividend of 10.9 cents per share has been declared and this is fully franked. Consistent with the interim dividend, it is based on a payout ratio of 75% of underlying NPAT for the continuing operations. Even at the reduced payout ratio, which supports the acquisition of One Rail, the total dividend of 21.4 cents still represents a yield of over 5%.

And finally, we completed the One Rail acquisition, and Clay and I travelled to Adelaide last week to welcome our new colleagues to Aurizon. We are excited about the opportunities this business presents in central Australia as we look to grow our exposure to Bulk markets.

Moving to an update on commodity markets.

SLIDE 6: COMMODITY MARKETS UPDATE

Despite all-time record thermal and coking coal prices achieved during the year, Australian coal export volume was 1% lower than the prior year, with adverse weather and COVID-related labour constraints impacting coal production.

Existing energy supply challenges in addition to Russian sanctions have particularly impacted thermal coal, with the Newcastle index now trading at over US$350 per tonne. The extraordinary increases seen over the past twelve months are of course supportive of customer profitability and government royalties and taxes. But this is not expected to benefit volumes in the short-term with mine plans set well in advance. However, an extended period of elevated prices supports additional volumes.

On the demand-side, crude steel production growth has resumed in India with 123 million tonnes produced in the 12 months to June. A reminder that India draws around 90% of coking coal requirements from the seaborne market and in turn, Australia supplies around three-quarters of this volume.

In the absence of export volume to China, Australia has gained market share in every other major coal import nation, negating the impact of the continuing trade ban.

Turning to Bulk markets where record grain export volume is expected for the 2021-2022 season, supported by favourable growing conditions. This is of course a commodity of increased importance for Aurizon given the start of the CBH contract during the year and the acquisition of One Rail. I will speak more about our grain haulage shortly given the share in our Bulk portfolio.

Finally, although noting the recent declines in commodity prices for copper, iron ore, nickel and alumina, the demand outlook for such commodities, in particular in the face of supply security, has translated through to capital expenditure. The total 2021 calendar year result is the highest since 2013, indicating confidence in developing future supply.

Returning to grain

SLIDE 7: INCREASED GRAIN HAULAGE

Export volume in FY22 was over 40 million tonnes, with around half of this volume from Western Australia and South Australia. Aurizon now has significant operations in both of these states as a result of the CBH contract and the One Rail acquisition.

As noted in the middle of this slide, the CBH winter harvest resulted in a record 21 million tonnes received across the network. Historically, around eight million tonnes is hauled by rail per annum but this will be surpassed in FY2023 due to the carry-over tonnes from the prior harvest, and the additional capacity Aurizon has deployed in support of CBH. In the first month of the financial year, we railed almost 900 thousand tonnes.

Looking forward, we are seeking to challenge the historical rail/road split and put more grain on rail in Western Australia. This commitment is shared by CBH and the state/federal governments with an announced $400m for infrastructure upgrades in the grain-growing regions including new rail sidings, additional storage and upgraded rail lines.

This, in addition to haulage in eastern states, means that Aurizon will be the largest grain rail operator in the country. Furthermore, as indicated on the chart, production in Western Australia and South Australia isn't as exposed to fluctuations in volume due to favourable climate and crop yield.

We like the fundamentals of grain given the integral link to population and food consumption. Generally, 70% of Australian production is exported with Australia holding a trade share of around 10%. As investors will be aware, there is an increased focus on grain supply given that Russia and Ukraine hold a 30% share of global traded markets.

The share of grain in our portfolio is increasing and this provides cascade opportunities from our coal fleet.

Turning to business unit highlights

SLIDE 8: BUSINESS UNIT HIGHLIGHTS

Although **Coal** volumes were down 4%, the business unit achieved moderate EBITDA growth due to positive revenue yield and favourable cost management. Volume growth is expected to return in FY23, but offset by a yield reduction.

I am pleased to announce today that we have secured a long-term haulage agreement with Pembroke Resources for the greenfield Olive Downs metallurgical coal mine. Haulage is expected to begin late in the 2023 calendar year and it is great to see investment being made in new coal supply. We also completed during the year:

- the successful transfer of the BMC haulage agreement to new asset owner Stanmore; and
- secured a 5-year extension for Baralaba Coal in the Moura system, which is 80% PCI.

It's a strong year for the Coal business even with lower volumes as various transformation programs are delivering real benefits.

Bulk EBITDA declined by $10 million with two main factors contributing to this result:

- Lower iron ore volumes with the end of the Mount Gibson contract and lower volumes this year for MRL into Esperance; and secondly
- One-off costs of around $10 million, including weather, higher fuel prices, new contract start-up costs and the impact from a major customer shutdown.

These two factors offset new customer growth, some of which were not operational for the full financial year such as CBH, Tronox and additional freighter capacity on the Mount Isa line.

Looking forward, the full year contribution of these contracts, in addition to higher Western Australia grain volumes, provides confidence in the growth trajectory returning to Bulk in FY23. In addition, One Rail will also provide further growth opportunities given the number of early stage developments in the pipeline.

With relatively flat volumes, a $48m decline in **Network** EBITDA was driven by lower WIRP and GAPE fees when compared to the prior year. We have now reached agreement with all WIRP customers which brings the fee disputes to a close and now it will be the regular annual payments for the term of the agreement until 2035.

The QCA published the Independent Expert's *Annual Capacity Assessment Report* in June, which identifies the annual deliverable network capacity of each coal system for the period FY22 to FY24. This was the next step in the capacity assessment process which outlines transitional arrangements and potential capital spend to address deficits. Although no decision has been made, we estimate that capex required will be less than $100m.

As George will speak to in more detail shortly, there is a re-set of the Network WACC next year. A paper has just been submitted to the QCA, outlining that the preliminary WACC is expected to be 8.18%, which will apply from 1 July 2023. This is based on data for June 2022 and is higher than the current 6.3%, mainly due to higher interest rates. Tariffs for FY24 will be based on this preliminary WACC and there will be a subsequent adjustment if interest rates move next year. It is important to note there are a few steps in this process to consider which is why George will go through this in detail in his presentation.

Turning to other matters

SLIDE 9: OTHER MATTERS

In April, the Federal Court declared Aurizon's capital distribution account should be treated as share capital. As a reminder, this issue dates back to the privatisation and a Queensland Government capital contribution, and whether it should be treated as share capital for the purposes of tax law. This was the declaration we were seeking from the Court and therefore any future capital management will not impact dividend franking. The decision was <u>not</u> appealed by the ATO.

As noted earlier, Network settled all disputes with WIRP customers under their respective WIRP deeds, with all historical fees now billed to customers accordingly.

Finally the legal proceedings Aurizon commenced against G&W remain on foot and this matter is currently before the Supreme Court of New South Wales and we will keep you updated as this progresses.

And finally before I hand over to George, an update on One Rail.

SLIDE 10: ONE RAIL ACQUISITION COMPLETED

After a long journey, we are happy to have completed the acquisition of One Rail just ten days ago. We believe this is transformative for our business and provides a platform for future growth in this part of Australia.

One Rail allows us to:

- extend our national footprint into South Australia and the Northern Territory;
- deliver step-change increases in revenue and volumes in Bulk commodity markets; and
- become the long-term lease-holder of an integrated supply chain.

We will not be retaining the coal business and George will provide an update on the divestment process shortly.

The opportunity for Aurizon has always been the Bulk assets which we are integrating into our business today. One Rail was already a strong business with integrated rail operations in central Australia. However the growth potential is also significant based on the number of projects and commodities in this region.

I travelled with Clay to Adelaide just after completion, spending two days there. My observations and interactions with employees absolutely confirmed our belief in the potential of this business.

This is a workforce of highly skilled and capable employees who are positive about the change – particularly our desire to grow the business in the Bulk space and look beyond coal. The employees and customers like the Bulk turnaround story and its track record in securing new contracts and customers in a market that rewards agility, speed to market and a willingness to invest in future growth.

I saw maintenance facilities that were among the best in class, with an opportunity to:

- lift utilisation;
- deliver greater capacity; and
- enhance capability across the whole of Aurizon.

The transition into the Bulk business will be relatively smooth with synergies captured and delivered. The new business not only has strong growth opportunities in South Australia and Northern Territory but also is a key link in our national footprint – from west to east – in providing a national service offering for customers.

I will now hand over to George.

George Lippiatt: Chief Financial Officer & Group Executive Strategy

SLIDE 12: KEY FINANCIAL HIGHLIGHTS

Thank you Andrew and good morning to those joining us on the call.

As Andrew said, these results demonstrate what we've been talking about for many years – Aurizon is a resilient business that can produce strong cashflows in challenging environments.

Turning to the table on this page, and as you can see, underlying EBITDA declined 1% to $1.468bn. This means that over the last three years EBITDA has been within 1% and comfortably within our guidance ranges set – that's despite the last three years including China import bans, major wet weather events and COVID disruptions.

The change in FY22 EBITDA was predominantly driven by lower Network revenue. This was partially offset by higher Coal earnings, as well as the benefits from the Rockhampton workshop sale and favourable movement in provisions due to discount rates.

As you can see in the top row of the table, revenue increased 2% with Coal and Bulk higher. Operating costs increased 5%, due mainly to the growth in the Bulk business including start-up costs. I will go into more detail on each of the business units and their performance in FY22 shortly.

Staying at a Group level, and you can see in the table that depreciation increased 2%. This was mainly reflective of recent capital investments made to support new Bulk contracts and future earnings growth.

Free cash flow generation continues to be strong despite the slight reduction in EBITDA - with free cash flow of $664m representing an increase of 13%. This was mainly driven by lower cash tax, which is largely due to the disposal of the interest in Aquila last year resulting in a lower tax instalment rate during the year.

The final dividend of 10.9 cents per share has been paid based on 75% of underlying NPAT, which is consistent with the interim dividend and consistent with our expectation that we will pay dividends at the lower end of the payout ratio range due to the One Rail acquisition. We are also able to fully frank this dividend.

Moving now to Coal.

SLIDE 13: COAL

The result for Coal highlights the benefit of CPI resets in our haulage contracts, as well as the focus on cost control.

EBITDA increased $8m or 2% to $541m – this is despite volumes reducing 4% to 194mt. Volumes have been impacted this year by a variety of factors including weather disruptions throughout most of the year, customer specific production issues, Covid related disruptions to our own and customer operations, and the loss of both Moolarben and New Acland volumes.

Despite this, above rail revenue increased 1% to $1.195bn, with improved customer mix and higher CPI favourably impacting contract rates. Higher fuel prices benefitted revenue, but this also increased operating costs and is a pass through under our contracts – this is reflected in how we present the earnings bridge, which is shown net of fuel and access costs, given they are largely passed through.

The most pleasing part of this earnings bridge is the green bar showing a $23m reduction in operating costs – specifically, traincrew and maintenance costs were lower, reflecting lower volumes and continued benefits from our transformation programs. The focus on cost and capital efficiency was also reflected in 15 fewer active locomotives in coal, a large number of which were transferred to Bulk – this reduces costs in Coal and provides a low capital way to grow our Bulk business.

Coal delivered a good result in FY22 considering it was a challenging volume year. Looking forward to FY23, as Andrew noted, we expect Coal EBITDA to be lower due to lower rates from some contracts executed a few years ago which only came into effect from July.

Moving to Bulk.

SLIDE 14: BULK

Bulk EBITDA declined in FY22, however we see this year as an aberration given the Bulk team's track record, as well as the one-offs during the year and our recent investments to support growth.

Revenue in Bulk was 9% higher with new contracts such as CBH and Tronox commencing during the year.

Bulk EBITDA decreased $10m or 7% to $130m with higher costs offsetting the 9% increase in revenue. The cost increases were due to the new contracts, in addition to a $10m impact from one off items – this included the direct impact from adverse weather, the temporary shut of a customer site, start-up costs to support new contracts and higher fuel prices. Although fuel is largely passed through like the Coal business, when prices are rising there is a lagged impact as the cost re-sets more frequently than revenue. This will even out over time once fuel prices stabilise, however there was a temporary impact given the sharp increases in prices during the second half of FY22.

Lower iron ore volumes and the end of the Queensland livestock contract also negatively impacted the Bulk results during the year.

Depreciation increased which is expected given the investments in growth, noting that 100% of Aurizon's growth capex this year was to support the Bulk business.

Looking forward to FY23 and we expect Bulk EBITDA to be higher next year, even before considering the contribution from One Rail, with newer contracts reaching their full run-rate. One Rail will provide strong Bulk earnings growth on top of that.

Moving to Network

SLIDE 15: NETWORK

Network EBITDA decreased $48m or 6% to $801m. This was due to lower revenue - with a reduction in GAPE revenue, lower historical WIRP fees and lower MAR only being partly offset by increased construction revenue.

The $20m reduction in GAPE revenue was principally due to the re-set of the risk-free rate on 1 July 2021. It's important to remember that this is different to the WACC re-set process from 1 July 2023 which I will talk in more detail about later. GAPE has a three-year re-set cycle based on the ten-year risk free rate to determine its maximum capacity revenue and the risk-free rate was lower in 2021 compared to 2018 which flowed through to lower FY22 revenue.

As Andrew said, it's great to see the end of the WIRP fee dispute. We look forward to annual WIRP fees until 2035 and we've now booked all historical payments, totalling $79m across FY21 and FY22. As the historical payments booked were less than last year, total WIRP fees were $13m lower in FY22.

There was a volume related under recovery with actual railed tonnes below the regulatory forecast. Partially offsetting that was take or pay of $33m, which was booked in FY22. However, I note as a reminder that take or pay does not cover all of the shortfall - what is left is $39m excluding GAPE. This will be recovered through the access tariffs in FY24 but will also be adjusted by other amounts including maintenance, rebates and WACC adjustments as detailed on slide 67. We expect the net result will be a revenue cap or recovery by Aurizon of around $30m in FY24.

To further help we have also provided the usual reconciliation of movements in access revenue in the back of the slides.

Costs did increase this year, primarily related to higher construction revenue and increased maintenance costs which will be recovered in subsequent years. Operating costs for the year were $22m lower when compared to the regulatory allowance which is a benefit Aurizon retains.

Turning to cashflow and capex

SLIDE 16: CASHFLOW & CAPEX

I do like this chart on the left – we first showed it at our investor day last year – and when we add FY22 figures, it further demonstrates the resilience of the company's cash flows despite volume fluctuations.

As Andrew said at the outset that free cash flow was up 13% which we are happy about. This chart on the left highlights all cash flow, including discontinued businesses – that includes the sale of Acacia Ridge in

FY21. Even so you can see how steady free cashflow has been, something we like to show to debt and equity investors.

Capex finished up at $532m this year, slightly below the guidance range with $95m of growth capex to drive future Bulk earnings. Sustaining or non-growth capex came in under our expectations due to weather delaying some Network track work, as well as efficiencies and temporary delays in some of our locomotive overhaul programs.

Looking forward we expect FY23 non-growth capex to be in the range of $500-550m, which also includes an assumption for One Rail Bulk. Like in FY22, we will provide an update to this range including growth at the interim results once we have a better view of some prospective Bulk growth contracts and associated investments.

Long-term expectations for non-growth capex is aligned with this new range of $500-550m, inclusive of One Rail Bulk.

Turning to funding.

SLIDE 17: FUNDING UPDATE

The year ended 30 June was quiet in advance of the completion of One Rail – with average debt maturity reducing by a year and no change to the Aurizon funding mix.

The long term funding strategy remains unchanged, that is to ensure we access multiple pools of capital and lengthen debt maturity to align it with Aurizon's long duration assets.

Before we do that, we had to complete the acquisition of One Rail, which was achieved on 29 July. As a reminder, the transaction was 100% debt funded, with $500m of debt placed against East Coast Rail and the balance of funding through new Aurizon acquisition facilities and utilisation of existing facilities. These new facilities were well supported, with 8 banks participating in the East Coast Rail syndication and 15 banks in the Aurizon Operations syndication.

Importantly this has been done while maintaining existing credit ratings, with rating thresholds reduced by Moody's and S&P in recognition of the quality and diversification of One Rail earnings.

Looking at some of the metrics on the page I note the lower weighted average cost of drawn debt at 3.4% which was due to the benefit of having a high fixed portion of Network in FY22. This will continue next year ahead of the WACC reset on 30 June '23, meaning we expect cost of debt for FY23 to be 4% or lower.

SLIDE 18: MARKET DEVELOPMENTS

Many investors are asking about inflation and interest rates and the impact this could have on Aurizon - so we thought it was easier to talk through these items together on one page.

Starting with inflation, and as we've seen recently in Australia it's risen to 6% for the year to June 22. For Aurizon, inflation flows through differently in our respective businesses:

- For our Above Rail businesses – Coal and Bulk – we have revenue protections in place through quarterly or annual CPI escalation in our customer contracts and I note One Rail has very similar contract mechanisms. There are though two sides to every coin and the main risk is inflation driving wage escalation.

- For Network - the regulation is designed to deliver the owner, in this case Aurizon, with a real rate of return. To do this, there are a variety of inflation true up mechanisms – for historical inflation, the Regulated Asset Base is rolled forward at an assumed rate of inflation and at the reset point on 1 July there is a true up where actual inflation differs from the estimate at the start of UT5. For forward inflation, this is reset alongside the WACC for the FY24 to FY27 period, with a higher inflation assumption reducing regulatory depreciation.

Turning now to interest rates and a reminder that our Network debt is largely fixed this year, which protects interest costs when rates are increasing. Rates are floating beyond FY23 in order to match revenue with interest expense. For Operations, debt will initially be floating given the recent completion of One Rail, but this is to be termed out over time with longer duration capital markets debt.

Finally on this page we thought it worthwhile to talk about the Network WACC reset. When we settled the commercial deal with customers for UT5 it was designed for a reset in 2023 and for this reset to be simple and mechanical, with adjustments to certain market parameters such as the risk free rate and the debt risk premium.

There is actually an interim step in this process, and the numbers you see here are from a submission to the QCA in July based on market parameters from June 2022. This is called the preliminary WACC reset and will be used to determine tariffs for FY24. You can see that the increase in both the risk free rate and the market risk premium takes the WACC from its current 6.3% to more than 8%.

The final reset will occur in June 23 and be reflected in tariffs from FY25. The difference between the final and preliminary WACC resets will then be reflected in a revenue cap adjustment in FY26.

As you can see from this page, Aurizon has protections from rising inflation and interest rates. To underline that point, based on our preliminary WACC reset and current inflation assumptions, we would expect the Maximum Allowable Revenue for Network to increase in FY24 to $1.05bn, an increase of around $80m from FY23.

And before handing back to Andrew I will spend some time on One Rail and the dual track divestment process for East Coast Rail.

SLIDE 19: ONE RAIL TRANSACTION

With the One Rail transaction complete on 29 July, our focus turns to divestment of East Coast Rail and integration of the Bulk business. On the topic of Bulk integration, I'll start by confirming that we're realising synergies, with around $4 million of the expected $7-$10 million of expected synergies already locked in from Day 1.

In terms of transaction costs, I note we incurred $14m of this in FY22 and it represents the statutory adjustment shown below the line in these results. The remainder of the acquisition and borrowing costs will be borne in FY23, with the single largest acquisition cost item being an expected stamp duty payment.

I know some investors and analysts have asked about the purchase price allocation between One Rail Bulk and Coal. To complete this formally involves an independent valuer ascribing values to contract assets, intangibles and property, plant and equipment at a site level within the two parts of the business. With only 10 days since Completion and some of the sites being in regional locations, the required physical asset inspections haven't been completed yet by the independent valuers. We expect it to be finalised in coming months.

As announced previously we are subject to an undertaking with the ACCC that requires divestment of East Coast Rail within this financial year. This can be done either through a trade sale or demerger and we will choose whichever creates the most shareholder value.

In terms of the demerger process, we have appointed independent experts to prepare their relevant reports and as we will show on the following page we are well progressed with appointing the Board and Management team. In parallel with demerger preparations, we've been pleased with the level of engagement from trade sale buyers and are expecting non-binding offers in September. Ultimately, we aim to make a decision on which divestment pathway to pursue in the second quarter of this financial year.

Turning now to some further detail on ECR.

SLIDE 20: EAST COAST RAIL

As I've said previously, ECR is a business which generates strong free cashflows and is under-written by a long-term, high take or pay contract with a parent company guarantee from its major customer. I can also say that the business continues to perform well in the face of weather disruptions, that recent coal prices underscore the demand for the product ECR hauls and we've made good progress in the establishment of the standalone company.

Firstly on performance, and a reminder on the right that the business generated close to $140m of EBITDA last calendar year. Those results do not include the benefit from two items – firstly, an additional consist that begun operating in Queensland in June, and secondly, the annual CPI increase in contracted rates which was more than 4% from 1 July and based on the CPI figures to March '22. The CPI reset process for ECR is similar to Aurizon although is an annual reset, meaning the most recent June quarter CPI will be reflected in the annual reset to occur on 1 July next year.

In terms of a Business Update, we've already secured $350m of standalone insurance coverage for ECR and the Board and management team is close to finalised. We've appointed an independent Chairman, Greg Martin, who was previously CEO of AGL and has had a number of Non-Executive Director roles in recent years, including at Iluka. John Fullerton is another Non-Executive Director appointment and was previously on the board of One Rail and the former CEO of ARTC. There remains one more board member to appoint, but we are happy with the rail, resources, and listed company expertise we've secured through Greg and John's appointments.

As well as the pre-existing role held by John McArthur, the key positions of CFO and COO have also been filled with external appointments as you can see in the chart on the left.

Turning to the ECR capital structure. ECR has $500m of amortising bank debt and an investment grade rating of BBB- which has been publicly confirmed by S&P and is available on the S&P website. This rating underscores the stability of East Coast Rail's cashflows, which was also reflected in 8 banks participating in the ECR's debt syndication.

Attention now turns to US Private Placement markets with an eye to term out some of that $500m debt to set ECR up in a way that no re-financing is required - any further re-financing is then upside to the capital structure we've put in place.

Lastly on ECR, I can confirm that no distribution will be paid from ECR during Aurizon's ownership – instead, the cash generated will predominantly be used to reduce ECR's debt, thereby increasing equity value on divestment assuming a constant Enterprise Value.

Finally, I'll say in closing that FY22 saw Aurizon deliver stable earnings and free cashflows consistent with what our investors have come to expect from us.

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

Andrew Harding: Managing Director & Chief Executive Officer

SLIDE 22: FY2023 OUTLOOK

Thanks George.

Turning now to the financial outlook for the 2023 financial year.

Our EBITDA guidance range is $1.47 to $1.55 billion, which includes the impact from wet weather in July and also includes 11 months EBITDA contribution from One Rail Bulk.

Group sustaining capex guidance is $500m-$550m with growth capex expectations dependent on contracting outcomes as George noted.

We have listed our key assumptions by business unit:

- For **Coal**, volume is expected to increase, but revenue and EBITDA to be lower due to a reduction in revenue yield
- For **Bulk**, revenue and EBITDA growth from increased volumes and services, and the inclusion of One Rail Bulk
- For **Network**, flat EBITDA assuming volumes align to regulatory forecast, with higher FY23 MAR offset by non-recurrence of historical WIRP fees

As per our normal practice, we do not assume any material disruptions to commodity supply chains such as extreme or prolonged weather or COVID-19. Note also that this guidance excludes East Coast Rail.

SLIDE 23: AURIZON'S VALUE CREATION RECORD

In conclusion, we always like to end with a reminder of Aurizon's focus on value creation. We have spoken of many of these in the past, and we hope you agree that Aurizon does not sit still and is constantly striving to improve.

I want to leave you with the message I started with. Aurizon is a strong and resilient business, able to withstand variable markets. We are well protected from fluctuations and can generate good cash flow under many conditions. The future opportunity from One Rail excites us as there are a lot of potential developments in this region as we transition towards more Bulk commodities.

We look forward to continuing the journey for Aurizon and creating value for shareholders.

I now welcome your questions.

Questions and Answers

Jacob Cakarnis: Morning, Andrew. Morning, George. I might just start with the One Rail business, if I can, please. Appreciate that it's been a shorter time that you've owned the asset. But just focusing on One Rail bulk, I think originally you'd said to us that you're expecting around $100 million of contribution in the first 12 months of ownership. Obviously now, that's going to be 11 months. George Davis, a good update on the synergies. Can you just let us know about that 10 million of EBITDA that was planned for growth? Has there been any progress on this growth aspect, and just wondering whether or not there's any growth CapEx that's going to be attached to those earnings, please?

Andrew Harding: Okay. George, I might get you to go through that please.

George Lippiatt: The short answer, Jacob, is there's no growth CapEx to generate that first 10 million of EBITDA growth. We're expecting growth beyond the hundred million though. And depending on where that comes from, there may be growth CapEx. But we'll know more about that over the next six to 12 months. Not sure if Clay wants to add anything.

Clay McDonald: No, I don't think so. George, I think as you mentioned, we've only spent the first week there and what we see is what we found in due diligence. So the opportunity for growth, both brownfield and greenfield, we'll be pursuing in the next 11 months.

Jacob Cakarnis: Okay. Just while I've got you, Clay, the performance of that bulk business in the second half, obviously some challenging conditions. You guys did call out that there was some shorter-term disruptions. Is the second half performance something that we run rate into FY23? Or are you expecting that things pick up as things like CBH and some of the other contracts get towards run rate? Just give us some quantification of what might change half on half heading into the first half of '23, please.

Clay McDonald: Yeah. Well, I'd certainly hope that we don't run rate it into the first half and then even into the full year, next year. But if we look through the numbers a little bit, it's pleasing to see the 9% growth in revenue, first of all. And that was driven by those new contracts, as mentioned before, CBH and Tronox and some good performance in our Rio Tinto rail services business, lifting that revenue line, but that growth offset by those softer volumes across the majority of our core customers. And, in particular, iron ore, export bauxite and, as we mentioned, we lost the livestock contract in Queensland. If you look at it, the impacts and interruptions that negatively affected our ability to deliver were the same that had the impact on our core customer's ability to produce. And so, yeah, it was a really challenging year operation, particularly in the second half. The North Coast line and Southwest lines were down for five weeks in February due to flooding, Mount Isa line out for 14 days, then followed by major customers had planned closures for 45 days. And then New South Wales, we had the floods impacting railing and shipping and WA, one of the wettest winters on record. So what we can... How I summarise that, we had the impacts of the start-up costs, which we've... that are well-publicised, resources, people investment to set up CBH and Tronox offset by the revenue in those businesses. But we like the positive signs in top line growth going forward into H1 this year and through the full financial year.

Jacob Cakarnis: Thanks for that, Clay. Just one final one for Andrew and maybe George, obviously you guys have highlighted well how you might benefit from some of the CPI read-throughs. I'm just wondering on the staffing and employment cost side of things, are you guys seeing elevated levels of staffing turnover or labour tightness? Just noting, obviously, you guys did lock in your EBAs I think in the last 12 months. I'm just wondering if there's some potential impacts that you might have from absentees and more staff turnover.

Andrew Harding: Okay. There's quite a bit of complexity to the answer to that question anyway. So I mean, there's different levels of tightness and different levels of impact. So West Australia is tight from a labour point of view. It's tight across many sectors. It's tight in rail. Rail across the whole country has been improving from a business point of view, which is lifting the number of people required in the rail sector. So you're seeing just general tightness across in many of the states. There has been, since the borders domestically opened, and we learnt to live with COVID, a larger, much larger number of people or employees going off on sick leave. So that's had an impact. But we've seen that in our own business and to a great extent, in customers' businesses as well. And not in rail, but in the resources sector, you're seeing a general shortage of labour available, notwithstanding the COVID impact. So labour shortage of people is playing a pretty big role. As far as enterprise agreement negotiations, we are in negotiations in a number of those enterprise agreements. It's still early days and it wouldn't be right of me to comment at this stage.

Jacob Cakarnis: Thanks, guys. Thanks for the questions.

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

Matt Ryan: Thank you. I just had a question on the operating cost increase within the bulk division as well. Just hoping if you could talk about what actually happens when you see these weather events or customers go through the planned servicing. Are you, I guess, suggesting that your cost base was probably a little bit more fixed over that period? And also, if you could just talk about specific to bulk operating costs, what sort of inflation that you're seeing around that cost base at the moment.

Andrew Harding: George, I might just get you to talk just generally about what you see from a cost management issue when you get a weather-related event or COVID related events. Sure. I mean, if you break down the cost base, Matt, majority of it is wages and maintenance. And it's hard to turn those off, on in short notice certainly when you get a weather event or COVID disruption. So that's why we say that they were one-off costs because the revenue line was impacted by those events, but the cost line wasn't. In terms of the second part of your question, you have to remind me what that was.

Matt Ryan: Just the general cost inflation. I mean, I guess where we're going with this is it looks like you had a $25 million sequential increase in your operating costs second half versus first half, appreciate there were some new contracts. I think CBH might have fallen into the first half though. So trying to, I guess, quantify the increase in the cost base against the number of $10 million that you've called out.

Andrew Harding: Look, I'll get George to talk about that in a second. Just a little bit more on costs associated with things like COVID and weather, particularly COVID, we provide employees with a COVID-19 leave amount so that they can actually look after their health and not infect the rest of the workplace. When somebody goes off, and this applies across all the business units, when somebody takes a COVID leave, and because it's a spike that's occurring a lot in common rather than just general issues like flu or something like that, you then need to make up that labour generally with a lot of people working overtime. So not only are you providing leave to employees, but you're making up, from a cost point of view, with a lot of overtime to keep services running if indeed, from an offsetting point of... a contributing point of view, your customers are able to continue to give product to you to haul. Because in some occasions, it doesn't work that neatly because they are suffering from COVID-related issues themselves. George, do you want to just talk about general inflation?

George Lippiatt: Yeah. I would. Although, I think what you're seeing in the raw numbers is the mismatch of revenue to cost in the Bulk business. And so let's draw that out with a few examples. CBH and Tronox didn't rail for the full year, but we were certainly incurring full year run rate cost base in the second half of the year for both of those contracts. On the other side of the coin, we lost the Queensland livestock contract, so we didn't have revenue flowing. But it takes time to remove those costs from the cost base. And we had lower iron ore volumes which, again, you had installed capacity for those iron ore volumes and you didn't have the revenue to match it. So I think what you're seeing in the bulk numbers, Matt, is more about the matching of the revenue and cost line, which we also see as temporary, as well as those one-off cost items that Clay detailed.

Matt Ryan: That's helpful. Thanks. And just a quick one on East Coast Rail, so the decision not to take a dividend, was that a sort of regulatory condition or just a commercial decision that you've made?

Andrew Harding: George, do you want to cover that?

George Lippiatt: I'd say, Matt, it's firstly a commercial decision, but it's a commitment that we've given to the ACCC and also now to our shareholders. We think it fits well withholding that business separate.

Matt Ryan: Yep. Thank you.

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

Anthony Longo: Oh, good morning, Andrew. Good morning, George and team. Just an additional question on Bulk, so still looking at those costs again, just wanted to get more of a sense to what that competitive landscape does look like, so in the sense of we have spoken about the mismatch between the costs coming in and the revenue coming through. How competitive is it, and is it... Because I'm trying to get the answer or get the sense as to how aggressively are you bidding for work as you still get to that a hundred mil EBIT target ex-One Rail.

Andrew Harding: Clay, I think this is a question for you to answer.

Clay McDonald: Yeah, thanks. I would say in response... And I might add a little bit more to George and Andrew's comments before about cost there too in a second. But yields are tightening in some areas and there's no doubt that being cost-competitive remains fundamental to our customers. However, what we're seeing is due to domestic and external factors, many customers are moving beyond just pure cost. So as Andrew said, they seek delivery assurance, co-investment resilience in supply chains. The other thing we're seeing is factors are also changing in our environment, the lack of capacity in some transport modes, fuel price driving potentially road to rail. Resource location, the distances to resource and ESG impacts are providing opportunity for rail. So it's a competitive market. That's why we look at options on expanding our supply chain services, integrated supply chain. We look at strategic assets, where we place them, where we put investment in, how they connect and enable export supply chains. But at the back of that, I've got to show George and Andrew that every investment we make and every contract that we have is hitting WACC. And if it isn't hitting WACC, we've got a pathway to WACC. And so that's a requirement. I just want to go back to a comment George and Andrew made around costs. And something that's particular to bulk, and we've highlighted this before, but it's worth reminding you is that there is a little bit more risk in our revenue profile on take or pay. And our equipment is more bespoke than coal. That is when a particular customer sits down. That equipment is often not as fungible as coal, and we can't redeploy it into other opportunities. A good one is IPL with acid, and particular equipment to support phosphate moving, the transport of phosphate. We can't necessarily go and deploy that somewhere else. And so that's the risk you have in the bulk market compared to some of the other markets. And that's why some of that cost, when those products are not moving or the market is softer, they appear in that cost one.

Anthony Longo: Yeah. That's great. No, really, really, really helpful. Second one for me, just with respect to some of the other items that have been flagged in this result, so I think the benefits of discount rates and also the sale of Rockhampton, looks like there was almost a 40 mil delta year on year. Are you able to provide a bit more granularity as to what the make-up of those two items and to what extent you did benefit from discount rates?

Andrew Harding: George, do you want to talk a little bit about, give some more colour on those items?

George Lippiatt: Yeah, absolutely. It's about $30 million, $35 million, Anthony, so about half of Rockhampton, about half of the changing discount rates impacting provisions. The way to look at that, I think I've said before, that we expect our other cost bucket to be between $30 million and $40 million on a long-term basis. It was only five million this year. So if you back out that 30, that puts you within that $30-40 million range that I've said before to expect.

Anthony Longo: That's perfect. Thanks for that. And last one, so I just noticed that the CapEx for this year was lower than your guidance. And you have given guidance for FY '23. Just want to get a sense as to how much of the CapEx is effective or been deferred into '23. So was it work that probably would've happened but has just been pushed to '23, just given weather impacts and labour and the like?

Andrew Harding: Yeah. Look, definitely some of the wet weather did impact our ability to do CapEx works. For example, if you get wet weather on the Central Queensland Coal Network, you can't access the road beside the track to actually get to do some of the work. There's definitely been some pushback for those reasons or deferral. Another aspect is just the ability to get some equipment. We have a reasonably sizeable fleet of vehicles, for example, and smaller trucks to help with repair of track and that sort of thing. Just getting those vehicles has proved problematic through the year. And so you're seeing a slippage in that regard as well. George, I don't know if there's anything to add.

George Lippiatt: Yeah, we came in 8 million below the bottom end of our CapEx guidance range. Now, if you take the midpoint of our CapEx guidance range, we're about 25 million under. Majority of that would be network. You've seen network CapEx during the year of 276 million. We'd expect that to push towards 300 mil going forward.

Anthony Longo: That's great. Perfect. Thank you.

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

Anthony Moulder: Good morning, all. If I can start back in Bulk apologies, but I'm just looking at this 10 million Delta from fiscal '22. If I look into the guidance you've given, you've given growth in the underlying bulk business. Is it fair to assume that's on the 140 or is it on the easier comp of the 130 reported?

George Lippiatt: No, it will definitely be growth on the 140.

Anthony Moulder: Okay. That's useful. Thank you. And you talked to a timing benefit on fuel. I noticed that your fuel and energy costs across the entire business are up 33% in the full year. What is the lag that you have in bulk? Because it seems a lot quicker, a lot more mechanical through coal.

Andrew Harding: George, do you want to keep going?

George Lippiatt: Yeah, it's a good observation, Anthony. Yeah, generally bulk has about a three month reset cycle. Your costs obviously escalate pretty regularly, but your revenue only resets on a three month basis. Coal tends to be more month to month. And so, if you're looking at that 10 million of one-off costs, about a third of that at least was fuel.

Anthony Moulder: Yeah. That's useful too. Thank you. Network, obviously, I hadn't appreciated that you had an interim figure of this 8.18% that then forms the basis for the fiscal '24 tariff. Are you hedging debt now, now that you've got an interim determination for what the tariffs will be for fiscal '24?

George Lippiatt: No, not yet, Anthony. We're hedged for '23. About three quarters of our Network debt through to 30 June '23 is hedged or fixed. We're floating beyond 30 June '23. The reason being, while the preliminary WAC is set for '24, there'll be a rev cap adjustment in '26. While there's a bit of a timing impact, we still think the right approach is to remain unhedged until we get closer to that final WACC reset.

Anthony Moulder: Oh, okay. Yes. Okay. And last thing on Coal. There was a mixed benefit that you received in fiscal '22. It sounds like most of that's unwinding in '23. How big a benefit was that to the coal earnings in '22, please?

Andrew Harding: Ed, do you want to talk about that?

Ed McKeiver: Yeah. Could you just restate the question? Did you say mixed benefit?

Anthony Moulder: Yeah, it seemed like there was a mixed benefit that went through fiscal '22 in Coal. And I'm just wondering as it sounds like that's going to unwind. I guess that's dependent on what customers were receiving most of the volumes relative to others.

Ed McKeiver: Yeah. Thanks for the question. Sorry. For that clarification. Mixed benefit may not unwind. I mean, we benefit revenue quality and FY22 benefit from a number of things in CPI and some mixed, as you mentioned. I expect the mix to continue as we see some longer haul lengths playing through. But it is very dependent on the actual shipments and we're still seeing demand volatility. It's difficult to predict in advance what the mixed benefit's going to be.

Andrew Harding: Anthony, it's probably worth pointing out that part of the challenge in predicting that is to predict which one of your customers will produce at which particular rate, given what they say they're going to do and what they actually do in reality. There's a uncontrollable part of it for us in actually picking that and sometimes an unpredictable part. We tend to be conservative. And we just say things will go back to the average and that an organisation that's underperformed in one period will over-perform in the following period. But that's not always the case depending on the timeframe you look at, but often the case.

Anthony Moulder: Sure. And then just trying to unpack as to what's the thinking behind that weaker earnings performance for coal for '23? Is it some of the reset contracts being revised from '23? Is it that mixed benefit sounds like it has to be a part of that. But just trying to unpick as the genesis or the thinking behind that.

Ed McKeiver: No, that's exactly it, Anthony. Sorry. Thank you for the question. That's exactly it. It's the reset of really the last major reset of our contracts, ones that were set in the early teens. And as that flows through and just commences in July. And beyond that, of course we've only got 6% of the contract booked now contestable in the next three years. That's the messaging around the moderate increased volumes and softer EBITDA.

Anthony Moulder: Right. That makes sense. Thank you very much for your help.

Operator: Thank you. Your next question comes from Andre Fromyhr with UBS. Please go ahead.

Andre Fromyhr: Thank you. Good morning. My first question, I think staying on a similar topic around the contracts in coal. To what extent when you reprice contracts these days, are you trading off the decision of whether or not you need to invest more capital into things like fleet or facilities versus the ability to price for an appropriate return on existing fleet?

Andrew Harding: Ed, do you want to take that?

Ed McKeiver: Yes. And thank you for the question. Yes. Look, we look at every deal on a standalone basis. I mean, we look at, we've got the hurdle rates we need to achieve for the adequate returns. Really, we prefer, wherever we can release in capacity, which we've had a really good track record of doing in the last couple of years, where we can release capacity to put it into a new contract tool, that absolutely makes our pricing more favourable without the capital outlay. And with such a scale business with more than 50% of the volume in the haulage volumes, as one contract rolls off, we can typically redeploy fleet. And we're seeing some of that with the cessation of the Moolarben contract, the new Acland contract as we're seeing some of that fleet go to other coal customers and some of that fleet being cascaded to bulk.

Andre Fromyhr: And is that the way that Olive Downs was provided?

Ed McKeiver: Yeah. Yes, that's right. Some of the work we've been doing on precision over recent years, we have the capacity released in that particular case. We're able to apply that rolling stock into the hall, meet the customers' expectations. And it's not all about prices we've spoken about before. It's also about terms and service and the right level of risk sharing.

Andre Fromyhr: Okay. Thanks. My next question's probably for George on cost of funding. You flagged that the existing debt, which is predominantly network linked, is hedged for the next financial year. Which according to the press is around 3.4%. But then you flagged obviously new debt coming in for the One Rail deal takes the group effective cost of funding to 4% or lower. Am I right in doing a bit of a weighted average maths to imply what the effective cost of funding is on the new debt that you brought in?

George Lippiatt: It's a combination, Andre, of weighted average cost of the new debt, and a bit of our view of terming that debt out. Obviously, when we draw down the debt, it's bank debt, it's shorter term, we've fixed the margins back nine months ago when we did the deal. What we then try and work out is what we are going to pay when we term it out in capital markets, which is our plan to do it. And that's our track record. Which generally, you see higher margins because you're getting longer term debt capital.

Andre Fromyhr: You said you fixed the margins at the time that you announced the deal. Does that mean that there's still a repricing risk associated with what the market costs of debt are once you start substituting those existing bank facilities into capital markets, for example?

George Lippiatt: Yeah, although that bank debt has fairly long terms, so between two and five years. But then yes, when you term it out in capital markets, that's a new deal and you strike a new margin at that point in time. The other thing to remember about the bank debt is, while you fix the margin, you don't fix the base rate. And that has gone up. To come back to your original question. That's what we look at when we form a view as to what the likely cost of debt will be for 2023, which as I said, circa 4%. Which is a bit lower than what we paid in terms of weighted average cost of debt in FY21.

Andre Fromyhr: Right. And the fact that you've sort of reiterated today the accretion estimate of the overall deal, still being 10%, despite the fact that obviously, base rates have moved in the last nine months. Is that more of a comment about how the maths stacked up at the time or is it still true? And there was some conservatism baked in? Or how should we think about those market dynamics?

George Lippiatt: Yeah, it's a combination of all of that. On the negative side, base rates have moved and cost of debt will be higher. On the positive side, all of the One Rail contracts have inflation resets, whether that's the bulk business or the East Coast Rail business. And so that gives us a benefit. And then, we've also seen higher volumes flowing through, particularly in the Queensland side of East Coast Rail, which gives us an offsetting benefit. You weigh up those two things and we are still sitting here saying that, over the next four year period, it will be 10% EPS accretive when you assume a demerger and therefore, the EPS benefits of East Coast Rail flow through to Aurizon shareholders.

Andre Fromyhr: Great. And then just final thought on that one. Are you still obviously gone 75 payout ratio again today? Is that still the plan that, under a demerger scenario, that's a two year reduction in the payout ratio would resolve to where it was before, closer to 100 after that? And are you still looking at potentially a hybrid form of funding under that scenario?

George Lippiatt: Do you want me to answer that, Andrew?

Andrew Harding: Yeah. Go.

George Lippiatt: Yes, no change to the timeline. We're still now expecting another two period. Call it one full year from this point at that lower payout ratio. That assumes demerger. And the other thing I'd say about a hybrid is yes, it's still in our thinking. It will be though a product of where we land with the East Coast Rail process and trade sale verse demerger.

Andre Fromyhr: Great. Thanks.

Operator: Thank you. Your next question comes from Justin Barrett with CLSA. Please go ahead.

Justin Barrett: Hi, guys. Thanks very much for your time. Can I just first ask, just again, running back to ORA bulk. That 10 million of one off costs, were they largely incurred in the second half of the financial year?

George Lippiatt: Yes. The majority of them were. Just to clarify, Justin, they weren't in relation to One Rail Bulk. They were in relation to the existing bulk business.

Justin Barrett: Sorry. Apologies. Yes. Yeah. Existing Bulk business. Thanks for that. And then, when you announced the acquisition of One Rail Bulk, you alluded to the potential for you to increase your longer term bulk EBIT targets. And they are yet to be announced. I was just wondering if there was a reason for that.

George Lippiatt: Well, we've owned the business now for 10 days. Our view of the long term growth potential of it hasn't changed. And we certainly expect to meet or exceed that 20, 30 target that we spoke about at our investor day, 12 months ago.

Justin Barrett: Fantastic. Thank you. And then, the final one for me. The Network capacity assessment CapEx that you alluded to being less than 100 million, is that included in your FY23 sustaining CapEx guidance?

George Lippiatt: No, it's not.

Justin Barrett: Okay. Thanks very much.

Operator: Thank you. Your next question comes from Sam Seow with Citi. Please go ahead.

Sam Seow: Thanks, guys. Morning, all. Maybe just a question on Coal. I guess the last couple years you've been guiding to higher utilisation rates. And I guess looking forward again, you've got contracted volume coming down but higher volume guidance. Could you maybe just talk to the drivers of this and if they're structural?

Andrew Harding: Ed, do you want to cover those?

Ed McKeiver: Yes. Thank you, Sam. Not structural. No. Yeah. And noting contract utilisation was up 1% in the year. I think I've got to contextualised my comments by just explaining how extraordinary FY22 was for us. I mean, we've had unprecedented levels of demand volatility. We had impacts from weather and COVID and customer production and shipping issues. It was really a challenging year. When we forecast in uplifting contract utilisation, we do that with the best of intel based on what our customers are telling us. In terms of the outlook, our customers are telling us for next year, there's a range of views. And some of them have calendar year financial reports. And some have half year, but on balance, our customer selling us somewhere between a zero and a five percent uplift in volumes, which is what we're setting up to run the business on.

Sam Seow: Okay. And then, it also appears there's less surge volume correlation as a commodity price than has been in the past. Is taking trains out of the system impacting this at all? Or is it just purely mine plans not allowing it?

Andrew Harding: It's very easy to see when you look at, I assume you're talking coal, the coal business. There's no product on the ground that waiting to be railed by anybody. It's very much a position of a customer production not being where you would expect it to be based on the price. And that's because it takes some time to respond from a mine planning point of view and then the inaction of those mine plans. The only times where you get a fairly quick turnaround is if you've actually got product sitting available or you are lucky enough to have some easy to mine territory. None of that's been the case on this occasion across the industry. And I think eventually prices will drive response and it's just that it can't be in the short term because the material's not there.

Sam Seow: Great. Thanks for that. And then just lastly, on that ACAR spend, let's say circa 100 mil, should we be expecting, I guess higher volume run rates, I guess all things equal or better costs? I mean, I know you had to spend it, but should we be expecting a return on that or how should that come out?

Andrew Harding: Pam, do you want to talk about that?

Pam Bains: Yeah, no problem. Thank you for the question. The best way to think about it, would be capital that would go into the RAB. You would get a normal RAB return.

Sam Seow: Too easy. Thanks for that.

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

Rob Koh: Good morning. Thank you. Can I ask more questions? Can you give us an update on redundancy expense in the half? I think at the first half, it was about four mill.

Andrew Harding: Okay. Rob, I'll get George to cover that.

George Lippiatt: It was about 13 million for the year, Rob, so pretty consistent with FY21 and we expect to be in that 10 to 20 mil. range going forward.

Rob Koh: Yeah. Okay. Thank you very much. And then, I guess two interrelated questions because of the funding of the One Rail deal is a little bit contingent on East Coast Rail. I appreciate that. Can you talk to your philosophy of hedging the debt for the acquisition? And also, what your capacity for future growth CapEx is under the debt deal?

George Lippiatt: Yeah. in terms of philosophy, look, it's difficult to hedge debt until you're certain that the transaction is going to proceed. It's floating at this point in time. Clearly, we've got long duration assets that we've acquired and we'll look to term out that debt and also our hedging book consistent with those long duration assets. We will look to enter into interest rate hedging. I think what we're trying to do, like most companies is trying to work out whether now's the right time to do that, or whether we should do that in say six to 12 months. That philosophy is also informed by the fact that interest rates going up is partly driven by inflation. And as I said before, we do have inflation protections in our contracts, including the contracts that we've acquired. Our revenue line is escalating at inflation. And so, I think we can afford to be a bit steady before we look to hedge that book out.

Rob Koh: Okay, great. That's clear. Thank you. And then yeah, capacity for growth CapEx from here?

George Lippiatt: I think the large part of that question, Rob, will depend on where we land with trade sale versus demerger. Obviously, if we trade sale the business, that's a significant amount of capital that comes back that we can use to fund growth CapEx. The other thing I'd say around growth CapEx is that you also need to look at the earnings that that CapEx is going to drive. Because clearly, if your earnings are going up, then that's more head room under your FFO to debt metrics. But what we're seeing when we look at our forward plan is we're comfortably within our ratings thresholds when we look at FY24 and beyond. Hopefully that gives you some colour.

Rob Koh: Yeah, yeah. No, that's great. Thank you so much. Good luck.

Operator: Thank you. Your next question comes from Nicholas Daish with RBC. Please go ahead. Pardon me, Nicholas. Your line is now live.

Owen Burrell: Hi, this is Owen Burrell here. Is it my line that's open?

Operator: Yes, please. Go ahead.

Owen Burrell: Wonderful. Sorry. Just a couple of questions just on the Bulk business again. I'm just trying to get a better feel for how the portfolio structure has evolved through the last half, given that we've had the iron ore and the Queensland grain contract come off and we've had CBH and Tronox come on. If I, just looking at the simple EBITDA margins, it looks like it's the margins falling down to about 16%. But then if we had the 10 million of one-offs back on at circa 19%, just wondering if that's where the portfolio itself should be sitting ex-One Rail at the moment. Or if not, where should that underly portfolio be sitting at?

Andrew Harding: George, I might get you to just talk about long term EBITDA margins. And then, Clay, you can come in on the back end of that.

George Lippiatt: Sure. We've always seen EBIT margins sustainably about 15 to 20%. Convert that to an EBITDA margin in bulk, and it's 20 to 25. You're right, Owen. In FY22, it's at the lower end of that range. We see it both sitting within that range going forward. The important thing to note is that One Rail has higher EBITDA margins because it's both Below and Above rail. It's more in line with 30, 35% EBITDA margin. When you bring that in, I think you'll see the weighted average EBITDA margin for our bulk business increase into the mid to high 20% range. Hopefully, that gives you a sense.

Owen Burrell: That's great. Mid to high.

Andrew Harding: Clay, did you want to say that portfolio makeup or anything like that? Any thoughts there?

Clay McDonald: Oh, I guess only reiterating that the Bulk business has got tighter margins than the coal business, traditionally. We've said that in the past. As far as portfolio mix goes, you can see an increase in exposure to grain and that's our intention is to diversify our portfolio further, to try and reduce our commodity exposure. That playing out with the CBH grain contract and grain exposure in Southeast Queensland increasing. And of course, increased volumes in New South Wales. Yeah, there's a shift. There's a bit more agricultural in there and we'll see that continue to shift and diversify with the acquisition of One Rail.

Owen Burrell: That's great. Just one final question just on Bulk. Just to confirm that excluding One Rail, you're assuming that in your guidance for next year that the underlying Bulk business is actually growing. Is that correct? Excluding One Rail bulk.

George Lippiatt: Yes. Yeah.

Clay McDonald: The answer to that is yes. Yep. And we've articulated to you the impacts and the challenging year we've had operationally. And we look forward to going back into growth both in the first half and second half full year next year. Absolutely.

Owen Burrell: Okay. I was just trying to quantify the decline that's going to be netted out in the Coal business. But yeah, thank you for that.

Operator: Thank you. Your next question comes from Cameron McDonald with E&P. Please go ahead.

Cameron McDonald: Good morning. Just a couple of questions from me. On One Rail to start with. What's the contract book for One Rail actually look like? And when do those contracts come up? And can you confirm my understanding that the Viterra grain contract is currently up for tender?

Andrew Harding: Clay, do you want to talk about, as much as you are able to?

Clay McDonald: Yeah. I mean, it's a pretty diverse portfolio. I think we've shown you that. Iron ore, grain, rare earths, a number of other future facing commodities. It does have the Viterra contract in it. I'm not exactly sure when that comes up, but it certainly didn't appear on my radar in the first week we were there. What we did see was great opportunity to increase grain haulage in that area. And if you combine it with our CBH, that's up to 50%, as we showed you on the side, 50% of Australia's export grain tasks being moved in two states by bulk. But happy to take it on those. I can get back to you on that Viterra contract when we come back on the hook-up later on.

Cameron McDonald: Okay. Thank you. And the other question relates to the announced closure of Mount Arthur. My understanding is that contract for coal haulage ledge runs out to 2026. And they've announced the closure of the mine from '28. What's the thinking behind or strategic thinking behind what you're going to do for that two year period, given that it's 25% of the Hunter Valley coal haulage operations. And does that provide you an opportunity to reprice it up for that two year period, given that it's spot tonnage? Or just talk through that thinking, please.

Andrew Harding: Ed, I might ask you to talk through the thinking behind coal volumes and moving in the fungibility of the various fleet units.

Ed McKeiver: In Mount Arthur?

Andrew Harding: Yeah.

Ed McKeiver: In relation to Mount Arthur. Yes. Yeah. Thank you for the question. Look, we are accustomed, I guess, to these kinds of things happening, end of mine life and one contract rolling off and another one coming on. It is, of course, we're very proud of the service to Mount Arthur. They were our foundation customer in the Hunter Valley. And we're disappointed to see the current plan. It is some way off. And between then and now, there are some contestable volumes in the Hunter Valley held by our competitors that we're turning our attention to. And of course, we also have the ability to, and beyond the Hunter Valley into other standard gauge hauls in coal in New South Wales. And so, we'll continue to manage the book we'll look through to, I guess, the fungibility, as Andrew said for other hauls. And then, of course, we also have the cascade capability to bulk, which is something we've demonstrated. We can do quite quickly, as we've done in the last 12 months, as we've seen Moolarben roll off with five locomotives, going to the Bulk business to support Clay's growth.

Andrew Harding: Great. Thank you.

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

Ian Myles: Hi guys! Look, quick one on the Network side, you talk about a flat outlook for FY23, looked at your revenue waterfall plus 70 million, where we could lose circa 30, which suggests about a 40 million improvement. What's increasing the cost? Or what other revenues are being lost? To have that flat outlook.

Andrew Harding: Pam, do you want to answer that question?

Pam Bains: Yeah. Ian, it might be one I'll come back to you this afternoon, if that's okay.

Ian Myles: Sure. The other one is, you talk about provision...

Andrew Harding: Ian, George might cover the question, sorry. Yeah. And I think one of the things you got to remember Ian is in the MAR chart, if that's the one you're looking at, on page 66, is some of those are non-repeats from prior years. So I think we'll come back to you this afternoon with a detailed breakdown of that.

Ian Myles: Sure. And whilst I have you there, George, you talk about your provision increase, and just want to clarify, is all of that in other? Because your provisions increased by circa about, oh, sorry, rephrase that, your provisions came down by about 30 million in the period. And I was just wondering, is that all from re-pricing? Not just the land provision, but also your workers' provisions. And where did they come through?

George Lippiatt: Yeah. Workers comp, leave, and land rehab. You've got to remember, with land rehab, it's not just a product of discount rates. It's also where you sell a site, you might release the land rehabilitation provision. So there was also that flowing through. You will see some of the leave provisions come through in the BUs, because that's where they're held rather than Other.

Ian Myles: Okay. So there's been a general improvement out there. And then just on Bulk, is it right to compare the bulk's EBIT outcome? I think it's page 40 of your annual report. That you've got a target of 164 that missed by 20%. And I'm just intrigued, you talk about contracts which are coming to an end, the livestock contract, the non-exporting of bauxite. And I was just wondering, what the revenue and EBIT impact of those contracts? Which aren't going to be repeated next year, but still have half a period to come through in next year's earnings.

Andrew Harding: Clay, do you want to give Ian as much of an answer as you can on that?

Clay McDonald: Yeah. I think, Ian, what we'll see is the livestock and export bauxite have played through mostly in H1, or H2, sorry, already. And livestock particularly was not heavily orientated towards H1, it started later in the year. So I don't think you'll see a material impact from that. It was three million tonnes of export bauxite that we moved for Alcoa in WA. And, again, I think that's played through mainly in the second half. So it won't have much of an impact in the first half, as it ended.

Ian Myles: Okay. I know you're talking about growth, and I'm probably going to, I'm not sure if you'll answer, but if you think about FY21 bulk's performance, do you think your bulk business can actually exceed that high watermark? Or are we still catching up to FY21 when we go into FY23?

Clay McDonald: Listen, I would say, and the targets we've got for this year indicate how confident we are around the growth of Bulk, and where it's positioned. And some of this will come through absolutely in FY23, but some of it we're putting the building blocks in place for FY24 and beyond. And so, do we like the resource profile in Australia? And where it's positioned? Absolutely. The minerals and metal side, copper, iron ore, lithium, the demand for those. On the agricultural side, the demand for more protein and phosphate to grow those crops. We're confident in all those. We understand that there's a ratio of sometimes six, up to 10, to one, inputs to outputs, for supply chains who're looking to export commodities out of Australia in support of that global transition to clean energy. So, mate, all the tailwinds are there, and we're confident that we are putting those building blocks for growth in place. So FY22 was really challenging, with all those impacts on each of the corridors, and each of the regions. And unless we see a repeat of that, we'll see the growth come through. And where you'll see it, mate, is you'll see it, we're just at the start of what we're going to achieve with CBH, we really like that counterparty. The more we get acquainted with them, the more we understand their strategy, and growing that grain market, the more encouraged we get. And if you think about, they've had 10 consists operating in the past, we've had 12. We've got another one there ready to go, that hasn't even delivered a tonne in anger yet, they'll be deployed in the first half of this financial year. So we're really encouraged by that. And then if you apply that Aurizon DNA, from the CQCN, on how you then enhance supply chain performance, optimise above and below, we see that each of those concepts will deliver more in H1, and going into H2 again, this financial year than it did in the last half of last financial year. So there's some immediate opportunities there, and some longer term opportunities there. Long answer, but I'm very confident.

Ian Myles: Yeah. It's not clear whether you can actually beat your high watermark, and whether you're confident to beat that high watermark of '21.

Clay McDonald: So long answer to say a very quick, yes.

Ian Myles: Okay.

Clay McDonald: Yes, definitely.

Ian Myles: That's all.

Clay McDonald: Sorry mate. Yeah.

Operator:	Thank you. Your next question comes from Scott Ryall with Rimor Equity Research, please go ahead.
Scott Ryall:	Hi there. Hopefully mine will be fairly quick, given you've been quite transparent and thorough in your presentation. Thank you. George, I want to clarify your answer to a question earlier, that the debt cost that you're expecting in fiscal '23, going up to 4%, is primarily due to the cost of the One Rail debt coming in?
George Lippiatt:	Yes.
Scott Ryall:	Yes. Okay. Great. And could you just give us a sense on whether you think the debt market has changed much in the last six to 12 months? Given you haven't been able to do, as you said, much of your activity in the capital markets. How do you see that it's changed over the last six to 12 months? And base rates going up, and all that sort of stuff, I get that, you've been quite transparent again on that, on page 18. So I'm more talking about, access, gearing ratios, those sorts of things.
George Lippiatt:	Yeah. My view on that, Scott, is it hasn't changed markedly. The reason it was quiet during '22 is we were focused on One Rail, and then had a nine month period between signing and completion. And so we needed to get certainty on that before we enact any debt capital markets term out. We also didn't have anything to do on the network side because we have quite a long maturity profile, and worked hard in '21 to do that. I guess more generally, what I'd point to is the fact that we could bring together eight banks to fund East Coast Rail, is a good sign that there's certainly appetite out there for coal related haulage businesses. And as I said, in my speech, I was really pleased with having an increase to the banks participating in the Aurizon operations syndicate. So I haven't seen anything to suggest there's been a trend that it's going to be harder to access debt capital markets for our business.
Scott Ryall:	Okay. Great answer. And then just to roll into the East Coast Rail process, am I correct that you've actually started the trade sale process now? You've put on bottom of page 19, that you got around 10 acquirers that have signed CAs, and you're receiving non-binding bids in September '22. So I'm imagining your live on that, is that a fair comment?
George Lippiatt:	Yes, absolutely.
Scott Ryall:	Okay. And have you noticed, in terms of, I guess the ESG headwinds are always, they're the big thing that's been an increasing issue over the last couple of years, have you noticed any change in that for potential equity bidders? You've commented on the debt side. And I guess I'm wondering in the sense of the style of acquirers that you're looking to engage with on this front.
Andrew Harding:	Scott, just before George, because George is running the process, so I'll let him make a comment, if he wants to. What I've noticed is, the last time we sold part of a business out of Aurizon was the grinding business, which is rail services, and this time around we're selling the East Coast Rail business, what was struck with was the quite a lot larger pool of interested groups turning up to the actual start of the process. Now I'm not, we've got to wait until we get through the process before I draw too long a bow on that, but it is remarkable to me how many more organisations

have turned up at the very start. George, did you want to make any shorter comments?

George Lippiatt: Sure. Yeah. Scott, if you go back 10 months ago, when we made the decision to take on the task of divesting East Coast Rail, the fundamentals of the business haven't changed in that 10 months. And it's got high cash flows, it's got a strong take-or-pay contract, and it's backed by a parent company guarantee from Glencore. I think what has changed though, in the last six months, is the macro environment. We're seeing that in thermal coal prices, people are having a reminder of the essential role that thermal coal plays in Asian markets. But people are also putting more of a premium on businesses, which are generating real earnings, and have CPI protections in their revenue contracts. And East Coast Rail fits that mould. I would just reiterate though, what Andrew said, is while we're pleased with the number of parties who've expressed interest, it's very early days. So we'll find out more in a couple of months.

Scott Ryall: Okay. Good. And then I just wanted to ask Clay a follow-up on One Rail. I'm going to seem like a broken record, but since you bought this 10 months ago, just today, you've seen quite a large potential acquisition in your corridor. So I just wonder if anything's changed in terms of where you think the opportunity set comes from in that business? Particularly up the middle of Australia, where you actually own the track as well.

Clay McDonald: You're referring to the BHP announcement this morning?

Scott Ryall: Yeah. Yeah. Yeah. BHP, Oz. Yeah.

Clay McDonald: I find that absolutely encouraging. That tier ones are looking at tier two, or other opportunities, to get into commodities other than iron ore and coal. And that is not feedback that is unusual, we're getting that feedback from other tier ones. Maybe they're not into the development of those mines, but when those mines are being developed, they become a target, or a potential target. So that just confirms the demand and the positive outlook for those types of commodities.

Scott Ryall: Yeah. And do you see the mix of where you're looking for opportunities over a five to 10 year time frame has changed? Has your thinking changed in the last nine months? I only keep asking these questions because a hell of a lot's changed in the last nine months. So it's just interesting to get a feel of where you think the opportunity set is now versus back then.

Clay McDonald: Well, I'm more confident that we need the types of commodities that are there, and I'm more confident that we need to provide a pathway to get those commodities out. And that's what we're good at. And maybe when we get in there, and we've looked at it, the thinking that Aurizon takes for these sort of opportunities is different to the thinking that One Rail had. And Andrew might comment on that in a second. But we think about it from a supply chain perspective in providing export opportunities. One Rail just thought about it a little bit different around the rail asset fundamentally. Andrew?

Andrew Harding: Oh, look, so what I'd say Scott is, there's a couple of points actually I'd make, it doesn't surprise me. If you think about it from a real estate point of view, it's kind of moving into an up and coming development area, where it's not that nice place to live before you get there. It's like our office is in Fortitude valley, not that many years ago Fortitude Valley wasn't a great place to be, now it's a great place to be. You want to be in early, and that's what we've managed to do. And whatever happens with the news today, however that turns out, what that does point to is, what Clay was saying, we viewed it as a strong likelihood, there's a strong tailwind. And I spoke about that when we announced the transaction. So I'm nothing, if not more confident, about the background for the transaction. Look, having only spent a couple of days with the One Rail bulk business, it's very clear to me, and we suspected it when we were involved in the transaction, that the business focus was on growing its coal business. I'm talking about the prior One Rail business before Aurizon steps in. And they did that quite well, and they're very proud of it, and they should be. The reality is you don't focus on everything, so they didn't focus on growing the bulk business. And that's what we want to do. And in this environment, that's exactly what will be extremely rewarding for us. So going down there for a couple of days last week, it was very clear, talking to everyone from the train driver, through to the deployment teams, and to management, that our intention, based on what we thought was the position in front of us, is exactly the right thing to be doing at this stage.

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

Operator: Thank you. Your next question comes from Nathan Lead with Morgans, please go ahead.

Nathan Lead: Yeah. Thanks for your presentations, team. First question for me, it seems to me that the cost of building pretty much anything has gone up a lot, so could you just maybe just chat through how much the cost of new rolling stock has increased? Maybe on a per loco, per wagon, et cetera, basis. And whether that outlook has been factored into your CapEx guidance? And then also whether your customers, in your pricing negotiations, are actually starting to realise that, and reflect that, in the pricing you can get?

Andrew Harding: Okay. Nathan, I would say, generally speaking, we're seeing inflation coming through in a number of areas, including as you say, rolling stock. I don't think it's wise for me to give you a specific number, because that's probably useful to other people that we compete against, but it is definitely there. And as far as do we take that into account when we forecast our CapEx? Yes. Our CapEx is based on operational planning environment, which goes out for a decade, and we take factors like inflation into account when we actually set that forward plan. So it directly rolls back into our CapEx expectations. As far as do we see customers talking to us and understanding inflation? I think every negotiation starts by trying to belittle the amount of inflation that a supplier is actually seeing. But the reality is the marketplace determines where you actually, from a competition point of view, where you actually arrive in an outcome. So if all of the suppliers to a particular contract, that are bidding, are experiencing a general level of inflation, that will ultimately follow through to the contract outcome. Ed, if there's anything specifically, I know you're not negotiating that many contracts at the moment, but do you think you'd add from a coal point of view?

Ed McKeiver: All I'd add is a large focus of our maintenance expenditure is actually capital, and its overhauls and renewals. So we're not so much in the business of buying new fleet at the moment. As I said earlier, we're releasing fleet for growth. And much of the work we've got, for example, 6,000 wagons to overhaul our entire Central Queensland coal, we got in before the pandemic hit. We built a facility and now we're two years into a six year programme. So we've got the cost nailed, and the bills and materials, and so on. The other thing I'd say is that, as we mentioned earlier, the coal business earnings are quite resilient. And in relation to CPI escalations in our contracts, obviously take-or-pay protections are now the pasture of things that are not controllable, like fuel costs. And so we're really, I'm less concerned about, we have mechanisms, I should say, that allow us to manage inflation, and so I'm not particularly concerned about the rising cost of maintenance.

Andrew Harding: Thanks Ed. I thought I'd just give you an example from one of the business units. If we ask the other two business units, we'd get roughly the same sorts of answers, so I don't think I'll bore everybody with repeating that.

Nathan Lead: Yeah. Sure. Sure. Second question I've got is on the bulk business, we obviously heard Clay talking just before about how he's not allowed to invest any capital unless he's getting a better than WACC return on it. Could you talk through just how much capital you've actually put into that business now? When we think about the port acquisitions, the CapEx, the cascaded rolling stock, et cetera, what's your general estimate of how much capital you've actually put in that business?

Andrew Harding: George, I might get you to respond to Nathan's question?

George Lippiatt: Yeah. If you went back, Nathan, and looked prior to FY19, that business was starved of capital. And so there wasn't much that was going in prior to that. If you look at the last two years, in terms of sustaining CapEx, it's been combined about 75 million. But importantly, the growth CapEx has been about $140 million. And each dollar of that 140 million, as Clay mentioned, needs to get a requisite return. Now that starts by understanding the contract terms, and the particular customer and commodity that we're servicing, to then understand the risk profile. We're very happy with the returns that we've gotten on each of the contracts we've recently signed.

Nathan Lead: So 140 million there, is that pure cash spend? Or include rolling stock that's been cascaded out of Ed's business into Clay's?

George Lippiatt: No, that's cash spend, that's growth CapEx. And then if you look at cascaded fleet, to give you a bit of a data point in the last 12 months, been around about 10, 11 locomotives that have been cascaded. Now about half of that standard gauge, half of that narrow gauge, so pretty low values on our balance sheet. And so it can be pretty productive in bulk, whereas it wasn't being utilised in coal.

Nathan Lead: Okay. Great. And maybe just one for Pam's business, obviously with the reset coming middle of next year, and the higher CPI flowing through at the moment. Just to confirm, you've got there in the presentation pack about how it has an impact on regulatory appreciation, but ultimately higher CPI means, higher asset based growth, but lower revenue coming through during that period. Am I reading that correct?

Pam Bains: Yeah. It'll take a couple of years for it to flow through, because obviously you've got the timing differences, and the RAB reset doesn't take place until 1st of July '23. So yeah, you've got the RAB uplift, which will uplift your revenue, but you've got the depreciation offsetting that as well.

Nathan Lead: Yeah. Okay. Great. Thank you.

Operator: Thank you. Your next question is a follow-up from Rob Koh with Morgan Stanley, please go ahead.

Rob Koh: Oh, thank you guys, you've been very generous with time. Just wanted to ask an ESG question, if I can, you've got a scope 1 and 2 intensity reduction target of 10% by 2030, which is to be commended. Does that include the One Rail business going forward?

Andrew Harding: So that target was set before the One Rail business was acquired. We will go about understanding the impact of One Rail on the business, and make the appropriate future statements about that.

Rob Koh: Okay. Great. Thank you so much.

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

Andrew Harding: Look, thank you all for taking the time to discuss the business results with us for the year. I'll finish where I started, with reminding you that Aurizon is a strong and resilient business, and it's demonstrated that it's able to extend variable market conditions. You can see we're well protected from fluctuations, and can generate good cash flow under many conditions. And underline that the future opportunity for One Rail excites us as there's a lot of potential developments. Thank you very much.

[END OF TRANSCRIPT]