ASX Announcement

15 August 2016

Aurizon's FY2016 financial results

$m	FY2016	FY2015	Variance
Revenue	3,458	3,780	(9%)
EBIT – Underlying	871	970	(10%)
EBIT – Statutory	343	970	(65%)
NPAT – Underlying	510	604	(16%)
NPAT – Statutory	72	604	(88%)
EPS – Statutory (cps)	3.4	28.4	(88%)
DPS – Final (cps)	13.3	13.9	(4%)
DPS – Total (cps)	24.6	24.0	3%

Aurizon today reported a 10% decline in Underlying Earnings Before Interest and Tax (EBIT) to $871 million for the full year ended 30 June 2016, compared to the prior year (FY15: $970 million). The EBIT result is the same as the unaudited EBIT advised in Aurizon's market update on 21 July 2016, and within the guidance range of $845 - $885 million.

Revenue declined $322 million, or 9%, to $3.5 billion, which includes the impact of the Redbank sale in FY15 ($43 million) and a $180 million reduction in freight revenue. Freight revenue was impacted by a 9% reduction in volumes, a $70 million reduction in payments from the Transport Services Contract, and disposal of CRT ($38m).

Statutory Net Profit After Tax (NPAT) was $72 million, decreasing by 88% compared to FY15 ($604 million), reflecting the impact of previously announced asset impairments ($528 million pre-tax), including $226 million related to the investment in Aquila, $177 million on rolling stock and $125 million on strategic projects.

Aurizon delivered $131 million in transformation benefits in FY16, with the Company targeting an additional $250 million by FY18.

The Operating Ratio for the year was 74.8% compared to a target of 73.0%. Return On Invested Capital (ROIC) was down 1.1 ppt to 8.6%.

For the first time the Lost Time Injury Frequency Rate (LTIFR) was zero, however the Total Reportable Injury Frequency Rate (TRIFR) deteriorated compared to FY15.

Free cash flow (FCF) increased 35% to $478 million, driven by a reduction in capital expenditure and improved capital allocation.

The Board of Directors has maintained the dividend payout ratio range of 70-100% of underlying NPAT, declaring a final dividend based on 100% of underlying NPAT. The final dividend is 13.3 cents per share (cps) (70% franked).

This takes the full year dividend to 24.6 cps, up 3% on FY15 (24.0 cps), a payout ratio for the full year of 100% of Underlying NPAT. Statutory Earnings Per Share (EPS) was 3.4 cps in FY16 compared to 28.4 cps in FY15. The dividend will be paid on 26 September 2016 to shareholders on the register at the record date of 30 August 2016.

The Company continued its capital management initiatives, including buying back and cancelling 70.3 million shares, at a total cost of $301 million during FY16. Further reductions in capital expenditure are expected over the next two years of between $50 million and $150 million. The share buyback has been stopped to manage near term balance sheet capacity for possible growth opportunities, noting also that free cash flow is expected to increase significantly during the next few years as capex is reduced and additional transformation savings are realised.

Commentary from Aurizon Managing Director & CEO, Lance Hockridge:

“It was a challenging year for the Company and our customers, with volumes and revenue under pressure in our above rail businesses, particularly in Freight, however we’ve seen a stabilisation in Coal volumes in the second half, with relatively resilient earnings for the year in a lower volume environment.

“Transformation continues to be the major driver of earnings growth, with $131 million delivered this year, along with an uplift in EBIT from the below-rail Network business.

“We have increased confidence in our ability to deliver an additional $250 million in cost reductions and productivity improvements to take $380 million out of our cost base for the three years to FY18. If achieved, that would mean a reduction of more than $630 million in our cost base over a five-year period. (FY14 to FY18)

“A number of substantial initiatives have been recently commenced including a new regional model for Operations, improved alignment of train crew and maintenance workers to long term demand, the outsourcing of non-core maintenance activities, and the continued consolidation of corporate support functions.

”For the second consecutive year, the Board has allocated 100% of underlying NPAT to dividends for shareholders. With the Company’s capital expenditure requirements reducing over the next two years, an increase in free cash flow growth will enable us to continue to deliver distributions to shareholders, even in an environment of low earnings growth.”

Update on key items

- The Network business delivered a new annual record of 226mt. Underlying Network EBIT rose 5% to $506 million.

- The conforming UT4 Access Undertaking was submitted to the Queensland Competition Authority in July. Work is now progressing on UT5, with the first submission due to the QCA by September 2016.

- The coal market has steadied with most of Aurizon’s above rail coal customers now in an improved position compared to six months ago. Approximately 10% of customers are operating at cash cost negative compared to around a quarter of customers at the time of the half year results in February 2016.

- A performance review of the intermodal and diversified bulk freight businesses has been initiated due to difficult market conditions, to determine options to achieve satisfactory risk adjusted returns.

Outlook

In FY17 the Company expects to report an increase in underlying EBIT to between $900 million and $950 million, underpinned by the delivery of ongoing transformation benefits, an anticipated stable volume environment and no major weather impacts. The EBIT guidance excludes a minimum of $100 million in restructuring costs expected in FY17.

Based on current market conditions, Aurizon anticipates above rail haulage for FY17 to remain flat in the range of 255mt – 275mt, with coal in the range of 200 – 212mt.

In the below rail business FY17 EBIT is forecast to be flat despite a $73 million one-off true-up from revenue under collection in FY14 and FY15, due mainly to increasing energy and depreciation costs.

The next phase of company restructuring is well advanced, with approximately 300 surplus positions identified through a streamlining of the Operations structure. A consolidation of corporate support functions following a reduction in direct CEO reports from seven to five is also planned.

The Company is on track to achieve the transformation target of $380 million over the three years from FY16 to FY18, excluding the minimum $100 million in restructuring costs expected in FY17.

The 70% Operating Ratio (30% EBIT margin) target by FY2018 remains, however achievement will be dependent on above rail volume growth, the delivery of transformation targets, the UT5 outcome and the outcome of the freight performance review.

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