

18 August 2014

Aurizon on target for 75% Operating Ratio in FY15 with strong full-year performance and increases cost-out target to \$250 – \$300 million

Aurizon has reported Statutory Earnings Before Interest and Tax (EBIT) of \$465 million for the year ended 30 June 2014, down 32% against FY2013 (\$685m), due to one-off impairments that were previously advised to the market during the year. These comprised transformation-related asset impairment costs (\$190m), other asset impairment costs (\$127m) and Voluntary Redundancy Program costs (\$69m).

Aurizon has reported a 13% increase in Underlying EBIT of \$851m for the full year (FY13: \$754m). This was largely due to stronger volumes (record tonnages in coal, network and iron ore), the continued ramp up in contracted tonnes from the Goonyella to Abbot Point Expansion (GAPE) and transformation benefits (\$129m). This was also despite lower Network access revenue capped under the UT4 transitional tariff arrangements.

Major improvements in safety were recorded during the year (71% and 49% decrease in LTIFR and MTIFR respectively) demonstrating the Company's progress towards world-class safety performance levels.

There were 410 Voluntary Redundancies (VRs) during the year. Since the Company's IPO (November 2010) to 30 June 2014, there have been approximately 2,100 VRs or the equivalent of 22% of the workforce.

The Company remains on track to achieve its 75% Operating Ratio (OR) target in FY15, delivering a 2.1 ppt improvement from 79.8% (FY13) to 77.7% in FY14. There was a 0.8ppt improvement in Return on Invested Capital (ROIC) from 8.0% to 8.8%.

The Directors declared an unfranked final dividend of 8.5 cents per share, which will be paid on 22 September 2014 to shareholders on the register at the record date of 2 September 2014 (FY13: 8.2 cents per share 90% franked). This represents an increase in the payout ratio from 65% to 70% based on underlying Net Profit After Tax (removes impact of asset impairment and VR program costs). The unfranked dividend reflects a significant reduction in tax payments due to the asset impairments and changes to tax depreciation rules.

Financial Headlines

(\$m)		FY2014	FY2013	Variance %
Total Revenue		3,832	3,766	2%
EBIT – Statutory		465	685	(32%)
Adjustments	- Voluntary Redundancy Program (VRP)	69	96	
	- Stamp Duty	-	(27)	
	- Asset Impairments	317	-	
EBIT – Underlying		851	754	13%
NPAT – Statutory		253	447	(43%)
NPAT – Underlying		523	487	7%
Final Dividend (cps)		8.5	8.2	4%
Total Dividend (cps)		16.5	12.3	34%
Earnings per share – Underlying ⁽¹⁾		24.5	21.6	13%
ROIC ⁽²⁾ (%)		8.8%	8.0%	0.8ppt
Operating Ratio – Underlying ⁽³⁾⁽⁴⁾ (%)		77.7%	79.8%	2.1ppt

Notes:

(1) Earnings per share calculated on weighted average number of shares on issue of 2,137m in FY2014 (2,257m in FY2013)

(2) ROIC is defined as last 12 months underlying EBIT divided by average net working capital plus net PP&E plus AUC plus gross intangible assets

(3) Operating ratio margins calculated using underlying revenue which excludes interest income and stamp duty refunds (\$3,822m in FY2014 and \$3,736m in FY2013)

(4) Operating ratio – diesel fuel rebate is included as revenue for remuneration purposes

Commentary from MD & CEO Lance Hockridge:

“This is another solid result for Aurizon, which underscores the momentum we are achieving with our transformation program despite the continuation of subdued market conditions. Across all metrics our operating performance is improving, and we continue to pursue significant operational reforms to make the Company leaner, more efficient and more profitable.

Aurizon delivered a 13% increase in Underlying EBIT in FY14 despite a modest 2% increase in revenue. Underpinning this result was \$129 million in transformation benefits, compared to \$96 million in the prior year. Revenue quality improved \$98 million from new form coal contracts.

Collectively these results illustrate the success of the Company's cost cuts and efficiency improvements, with the ongoing roll out of our Integrated Operating Plan providing strong discipline for our continuing reform work. We are now transporting more tonnes with less equipment, delivering record tonnages using a rollingstock fleet that is 20% smaller than it has been historically.

During the year we undertook significant operational improvements on the Mt Isa (North-West) line and announced a major restructure of the rollingstock maintenance operations in Queensland, which will involve progressively ceasing operations at the Townsville and Redbank (south east Queensland) maintenance workshops by 2017. Reform of this scale highlights the Company's determination to discontinue inefficient practices of the past, no matter how difficult or entrenched.

The key metrics for asset and employee productivity are trending positively. Operational costs per net tonne kilometre decreased a further 9%; employee productivity (NTK/ FTE) increased by 17%; and, locomotive and wagon productivity (NTK/ active locomotive or active wagon) increased 20% and 17% respectively against the prior comparable period.

During the year the Company advanced a number of growth projects which underpin our long-term belief in Australian resources and the economy more broadly. Our joint venture with one of the world's largest steel companies, Baosteel Resources, led to the successful acquisition of Aquila Resources in July via a \$1.4 billion joint off-market bid. Aurizon is now investigating the creation of a world-class multi-user supply chain for a greenfield iron ore development in the West Pilbara, with the potential to unlock presently stranded high-quality projects for other mid-tier miners. It's Aurizon's intention, following the successful development of the West Pilbara rail and port infrastructure, to divest its shareholding in Aquila.

We continue to work closely with GVK-Hancock on a transport solution for the Galilee Basin, including majority ownership of the rail and port infrastructure under development into the Abbot Point Coal Terminal. Finalisation of definitive documents has been deferred to align with financial close, which is expected to occur in early CY2015.

Aurizon is a 33% partner with Qube in the Sydney Intermodal Terminal Alliance (SIMTA) consortium, which is exclusively negotiating with the Commonwealth Government to co-develop strategic rail and port infrastructure as part of the Moorebank Freight Terminal Development in Sydney. The project has potential to materially enhance the competitive environment for customers by helping unlock the transport gridlock of Australia's largest city and deliver strategic and critical export infrastructure for the nation.

Outlook

Based on the current market conditions, our volume outlook for FY15 is for coal haulage volumes in a range of 210 – 220 million tonnes. Iron ore volumes are expected to decline to around 23 million tonnes due to the conclusion of two customer contracts. We remain cautiously optimistic about the medium to long-term outlook for Australian resources, particularly coal and iron ore.

We acknowledge that FY15 earnings could be impacted by one or more events.

- Industrial action may result from the Company's determination to re-negotiate fair, competitive and commercially sustainable Enterprise Agreements (EA). Despite extensive and lengthy negotiations, there has been little progress on new EAs for Queensland-based employees. The Company's application to terminate all of the current 14 EAs will be heard by the Full Bench of the Fair Work Commission in November,
- We are also working to finalise Access Undertaking (UT4) with a final decision by the Queensland Competition Authority expected by June 2015. While there has been substantial engagement with all key stakeholders on UT4, there remains a risk that Aurizon does not receive a satisfactory outcome, and
- The Company is cognisant of potential impacts of extraordinary weather events, especially in Queensland where a wet season can severely interrupt the coal business.

As a result, Aurizon plans to further reduce its cost base and ramp-up productivity initiatives to achieve savings in a range between \$250 million and \$300 million (original target of \$230 million plus), in order to achieve the 75% Operating Ratio target in FY15. We remain determined to transform and restructure our business using all levers available to us.

I am grateful for the enthusiasm and energy of Aurizon's employees, who have stepped up to the challenges of the past year and delivered an impressive performance on behalf of our Company's owners. We are making large steps towards world-class performance and I'm confident our success will continue in the current year and beyond."

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