

# ASX Announcement

**Date:** 12 August 2019

## Aurizon announces FY2019 financial results

- **Non-network Underlying EBIT above guidance**
- **Record volumes in Coal and Network businesses**
- **On market share buy-back of up to \$300m**
- **Completed two strategic reviews – New capital structure to provide additional \$1.2 billion funding capacity; Company to remain integrated as benefits outweigh separation**

\$million (continuing operations) <sup>1</sup>	FY2019	FY2018	Variance
Revenue	2,908	3,113	(7%)
EBIT – Underlying	829	941	(12%)
EBIT – Statutory	829	966	(14%)
NPAT – Underlying	473	542	(13%)
NPAT – Statutory	473	560	(15%)
EPS – Underlying (cps)	23.8	26.9	(12%)
EPS – Statutory (cps)	23.8	27.8	(14%)
ROIC – Underlying (%)	9.7%	10.9%	(1.2ppt)
DPS – Final (cps)	12.4	13.1	(5%)
DPS – Total (cps)	23.8	27.1	(12%)

Aurizon today reported Group Underlying Earnings Before Interest and Tax (EBIT) of \$829 million for the year ended 30 June 2019 (FY2018 \$941 million).

The Non-Network businesses (Coal, Bulk and Other) delivered a \$450 million contribution to Group EBIT (excluding redundancy costs), above the guidance of \$390 - \$430 million provided to the market in August 2018. This includes a \$20 million recovery of a doubtful debt.

Aurizon Network delivered a \$400 million contribution to Group EBIT which includes a one-off regulatory true-up of \$60 million to account for the UT5 Final Decision. The true-up is the largest contributor to the 12% reduction in Group EBIT for FY2019.

The Board of Directors declared a final dividend of 12.4 cents per share, representing 100% of Continuing Underlying Net Profit After Tax (NPAT) for the fourth consecutive year. The final dividend will be 70% franked. This takes the full year dividend to 23.8 cents per share.<sup>2</sup> The Company is also announcing an on-market share buy-back of up to \$300 million.

Total Group capital expenditure for FY2019 was \$495 million, in line with guidance. Free cashflow improved 10% to \$735 million. Return On Invested Capital in FY2019 is 9.7% which is 1.2ppt lower than prior year.

<sup>1</sup> Due to the planned divestment and closure of the Intermodal business, this has been treated as a discontinued operation.

<sup>2</sup> To be paid on 23 September 2019 to shareholders on the register at 27 August 2019.

In FY2019, safety performance has been mixed. The metric for Rail Process Safety, which measures operational safety including derailments, signals passed at danger and collisions, improved by 14%. This is significant given these events, while low frequency, can potentially cause multiple fatalities. However, the Total Recordable Injury Frequency Rate, which captures the number of injuries to employees and contractors per million hours worked, has deteriorated by 10%. This result reinforces the importance of the continued rollout of the Seamless Safety program and other initiatives.

### Integration Review and Legal and Capital Structure Review

Aurizon has completed two strategic reviews during FY2019.

A review of Aurizon's vertically-integrated structure was undertaken to determine what structure created the most shareholder value. This work had been previously completed in the lead up to the IPO in 2010 and it was appropriate to re-test the assumptions. The evidence from the review showed the benefits of integration continue to outweigh the benefits of separation at this time.<sup>3</sup>

The second review was to optimise the capital structure of the Group. The proposed legal structure re-organises the above and below rail businesses under the holding company. This facilitates standalone funding structures for the Above Rail business (Operations) and the Below Rail business (Network) and will allow Aurizon to establish independent gearing levels for each business, consistent with their different risk profiles. This provides additional funding capacity of ~\$1.2 billion, with debt likely to be added progressively over time. Operations and Network will target credit ratings of BBB+/Baa1. Implementation of this structure will commence shortly and aims to be completed in the coming months.

### Commentary from Aurizon Managing Director & CEO Andrew Harding

"Above-rail coal volumes were up by one percent from last year with the business hauling a record of 214.3 million tonnes. New South Wales volumes increased following the start of a new contract in January and demand from existing customers, however volumes in Queensland were impacted by weather-related events, supply chain constraints and industrial action.

The Bulk business is continuing to make good progress on its turnaround plan by securing new haulage contracts during the year and improving operational efficiency. The early closure of the Cliffs' iron ore mine impacted Bulk's Underlying EBIT this financial year, however excluding this impact, Bulk EBIT increased \$25 million for the year.

A record 232.7 million tonnes of coal was hauled across our Central Queensland Coal Network in FY2019, reflecting the growth in demand for Australia's high-quality coal exports.

We were pleased to deliver on a number of strategic priorities during the year. These include the 10-year agreement with our customers for an alternate access undertaking for the Central Queensland Coal Network. This will facilitate long-overdue regulatory reform and provide the platform for continued performance improvement of the coal supply chain in Queensland. The alternate access undertaking is currently being assessed by the Queensland Competition Authority and we are hopeful for approval to be given in the first half of FY2020.

We have also secured employee approval of five new Enterprise Agreements (EA) since September 2018, including the Queensland Coal EA which was voted up after year end in July 2019. The only outstanding agreement is Bulk East in Queensland."

### Outlook

Aurizon expects FY2020 Group Underlying EBIT to be in the range of \$880 - \$930 million. This assumes increased EBIT across all business units from volume growth, benefits from operational efficiencies and the impact of the UT5 customer agreement in Network.

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<sup>3</sup> Further information is available in the FY2019 Results Presentation