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ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

Aurizon – Half Year Report Media Release

Please find attached announcement for immediate release to the market.

Yours faithfully
Aurizon

Dominic D Smith
SVP & Company Secretary

Media Release

AURIZON

20 February 2013

Aurizon reports strong half-year profit result

Aurizon has reported a 27% increase in underlying Net Profit After Tax (NPAT) to $222 million for the half-year ended 31 December 2012 (1H FY12: $175 million).

Statutory Net Profit After Tax (NPAT) was $176 million (1H FY12: $196 million) after payments of $88 million pre-tax ($61 million after tax) in respect of the Voluntary Redundancy program.

Underlying Earnings Before Interest and Tax (EBIT) rose 36% to $356 million compared to $261 million in the prior corresponding period. Revenue of $1.9 billion rose by 9% compared to $1.7 billion in 1H FY12.

The result was achieved despite flat coal railings of 97 million tonnes in the period. Volumes in Queensland decreased 3% on the prior comparable half-year, however this was balanced by a 15% increase in New South Wales coal volumes.

The Directors declared a 70% franked interim dividend of 4.1 cents per share, which will be paid on 27 March 2013 to shareholders on the register at the record date of 8 March 2013 (1H FY12: 3.7 cents per share).

The improvement in underlying EBIT was largely due to an 89% increase in iron ore volumes in Western Australia, which boosted iron ore haulage revenue by $99 million; and secondly, access revenue from the Network business in Queensland.

The Company remains on track to achieve its 75% operating ratio target by FY15, with 4 percentage points improvement in operating ratio to 81% from 85% in 1H FY12 due to the benefits of the growth and business reform program.

There was a material improvement in Return on Invested Capital (ROIC) from 4.8% to 7.5%, largely due to on-going growth in underlying earnings and improvements in capital efficiency, driven by continuing productivity and operational improvements.

Growth

Aurizon Managing Director & CEO Lance Hockridge said: “The continued improvement in underlying Company earnings reflects the ongoing progress implementing Aurizon’s reform and growth strategy.“

He said increased focus on customers and marked improvement in service capability since privatisation had resulted in the announcement of a number of new and renewed coal haulage contracts since July 2012, including Whitehaven (up to 16mtpa), Rio Tinto (up to 12mtpa), Jellinbah (up to 4mtpa) and Cockatoo Coal (up to 3.5mtpa).

“These contracts have been negotiated under more favourable commercial terms than current legacy arrangements and provide significant growth for Aurizon well into the next decade,” he said.

Capital investment during the half-year totalled $499 million, with the Company continuing to advance its program of major growth projects in Queensland (the +27mtpa Wiggins Island and +11mtpa Hay Point expansions), Western Australia (commissioning of Esperance facility and Narngulu East facility, near Geraldton) and New South Wales (Hunter Valley rollingstock and Hexham maintenance facility).

Committed expansions in Queensland will deliver an extra 76 million tonnes per annum of rail capacity by 2015 to the Central Queensland Coal Network, taking total capacity to more than 300 million tonnes of coal per annum. Aurizon also continues to evaluate other longer-term rail infrastructure and haulage opportunities, including the Galilee and Surat Basins and in Western Australia’s Pilbara.

Reform Program

Mr Hockridge said the Company’s business reform program had delivered $28 million in cost efficiencies, productivity improvements and coal revenue quality in the first half.

“We expect these benefits to increase in the second half of this year. We currently intend to brief investors with a detailed review of our next phase towards our FY2015 75% Operating Ratio target on or before we release our full year results in August 2013,” he said.

Major initiatives and changes that occurred during 1H FY 13 included:

- A 44% reduction in the Lost Time Injury Frequency Rate over FY12, demonstrating continued improving safety performance and operating discipline, as well as broader cultural change.
- A 16% reduction in the Queensland Government's 34% shareholding via a $1 billion selective buyback by Aurizon, and a $500 million sale to institutions by the Queensland Government. The Company also completed a $54.1m on-market share buyback. These initiatives delivered more certainty for shareholders, greater share register diversification and a more efficient capital structure with gearing now at 28%.
- The ongoing conversion of legacy contracts into performance-based contracts for customers, which will cover approximately 41% of contracted tonnages by year end.
- Delivery of a second major round of Voluntary Redundancies that resulted in the departure of 814 people.
- A change of Company name to Aurizon from QR National, approved by shareholders at the 2012 Annual General Meeting.
- The appointments of Alex Kummant as EVP Enterprise Strategy (October 2012) and Mike Franczak as EVP Operations (February 2013), bringing North American Class 1 expertise and extensive experience on business transformation programs to the Company. Keith Neate, the former CFO at Virgin Blue, has been appointed A/CFO following Deborah O'Toole's resignation in November.

Outlook

Since the end of the period, the Blackwater and Moura coal systems in Aurizon's Central Queensland Coal Network have been impacted by heavy rains and flooding associated with ex Tropical Cyclone Oswald.

The Blackwater system reopened earlier this month after a 12 day outage, however a subsequent derailment caused a further four days' disruption. The Moura system re-opened last night (19 February) after a 26 day outage.

The below-rail repair cost associated with the flood damage is estimated to be in the range of $10 - 15 million, with the intention to recover these costs under the regulatory process in FY14. Lost coal volumes because of the floods are expected to be approximately 4 million tonnes, equivalent to approximately $22 million in EBIT. The financial impact of the derailment is expected to be approximately $5 million in EBIT.

"Taking into account the impact of the recent floods and derailment - a loss of throughput of around 4mt together with the potential for some recovery of coal tonnes lost - we expect our FY13 coal volumes to be in the range of 192-195mt. We will continue to work with our customers with the objective of all parties recovering lost tonnages, noting the average weekly coal railings in the 13 weeks prior to the floods was 3.94mt," Mr Hockridge said.

"Over the medium to long-term we remain optimistic about the outlook for the resources and bulk commodity sectors, based on sustained global demand for Australian coal and iron ore and a strong domestic economy.

"As well as successfully securing a series of long-term, high-value haulage contracts Aurizon has a strong pipeline of new and expansion projects that will underpin our growth well into the next decade.

"The various reform initiatives including the transformation plan continue apace, with our operating ratio improving to 81% in 1H FY13. This positions us strongly to achieve a 75% Operating Ratio in FY15 with continued improvements to world-class benchmarks beyond.

"I would like to thank Aurizon employees for their continued focus on safety and outstanding performance during the period. Our capacity to recover coal networks and operations quickly following a major flood event demonstrates the Company's resilience and capabilities.

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