ASX Announcement

AURIZON

17 February 2014

Aurizon posts another strong result: on track for 75% Operating Ratio in FY2015

Aurizon has reported Statutory Earnings Before Interest and Tax (EBIT) of $201m for the half-year ended 31 December 2013, down 25% against 1H FY2013 ($268m), due to one-off impairments that were advised at the Investor Briefing on 16 December 2013. These comprised asset impairment costs for the rollingstock fleet ($147m) and a strategic infrastructure projects review ($50m), and secondly, payment for Voluntary Redundancies ($25m).

Aurizon reported a 19% increase in Underlying EBIT of $423 million for the half year ended 31 December 2013 ($356m, 1H FY2013), with record tonnages in coal and iron ore matched by continued momentum in cost reduction and transformation initiatives.

There were 262 Voluntary Redundancies (VRs) in the first half that will deliver an expected $28 million in savings during FY2014 and $42 million during the full year in FY2015. Since the Company's IPO (November 2010) to 31 December 2013, there have been 2,074 VRs or the equivalent of 22% of the workforce. No days were lost through industrial action during the period, and key asset and people productivity metrics increased significantly.

Major improvements in safety were recorded during the half (56% and 26% decrease in LTIFR and MTIFR respectively) which means Aurizon is approaching world-class safety performance levels. The Company remains on track to achieve its 75% operating ratio target in respect of FY2015, delivering a 2.6 ppt improvement from 81.0% (1H FY2013) to 78.4% in 1H FY2014.

The Directors declared an 80% franked interim dividend of 8.0 cents per share which will be paid on 28 March 2014 to shareholders on the register at the record date of 5 March 2014. The 65% payout ratio has been maintained based on underlying Net Profit After Tax (removes impact of asset impairment and VR program costs).

Financial summary:

($m)		1H FY2014	1H FY2013	Variance	2H FY2013
Total Revenue		1,965	1,879	5%	1,887
EBIT – Statutory		201	268	(25%)	417
Adjustments	- Voluntary Redundancy Program (VRP)	25	88	(72%)	8
	- Stamp Duty	-	-	-	(27)
	- Asset Impairments	197	-	-	-
EBIT – Underlying (1)		423	356	19%	398
NPAT – Statutory		107	176	(39%)	271
NPAT - Underlying(1)(		263	222	18%	265
Interim Dividend (cps)		8.0	4.1	95%	8.2
Earnings per share - Underlying(1)(2)		12.3	9.4	31%	12.4
ROIC(3)		8.6%	7.5%	1.1ppt	8.0%
Underlying EBIT Margin(4) (%)		21.6%	19.0%	2.6ppt	21.4%
Underlying EBITDA Margin(4) (%)		34.4%	32.1%	2.3ppt	34.9%
Underlying Operating Ratio(4) (%)		78.4%	81.0%	2.6ppt	78.6%

(1) Underlying adjusts for one-off items. Refer to page 5, Appendix 4D for details
(2) Earnings per share calculated on weighted average number of shares on issue of 2,137m in 1H FY2014 vs. 2,375m in 1H FY2013
(3) ROIC is defined as last 12 months underlying EBIT divided by net working capital plus net PP&E plus AUC plus Gross Intangible Assets
(4) Operating ratio and EBITDA and EBIT margins calculated using underlying revenue ($1,959m in 1H FY2014 and $1,878m in 1H FY2013) which excludes interest income

Commentary from MD&CEO Lance Hockridge:

"This is a strong result because it reinforces the traction Aurizon is getting with its transformation program and re-affirms we're on target for an Operating Ratio of 75% in FY2015.

Aurizon is driving out costs and lifting productivity across operations in a persistently challenging economic environment where resource investment has moderated and general freight activity remains flat.

Aurizon delivered a 19% increase in Underlying EBIT in the first half of FY2014 against a relatively steady 5%

increase in revenue. Some $59 million in transformation benefits were delivered which says much about the continuing reduction in our cost base and the efficiency gains we're extracting across supply chains.

Our Integrated Operating Plan is unlocking major efficiencies for the Company and for customers. We're running trains at higher velocities and with bigger payloads, with lower fuel and operating costs, and a smaller maintenance footprint.

The key metrics for asset and employee productivity continue to head in the right direction. Operational costs per net tonne kilometre decreased 11%; employee productivity (NTK/ FTE) increased by 20%; and, locomotive and wagon productivity (NTK/ active locomotive or active wagon) increased 22% and 21% respectively against the prior comparable period.

In terms of business segments, Coal performance was strong during the half with a 3% increase in revenue and a 3% reduction in operating costs contributing to a 32% increase in Underlying EBIT. Volumes grew 13% to 109.7mt and represent a record six month period for Aurizon.

The Network business had a material increase in throughput to 107.6mt, an increase of 20% on 1H FY2013. This also represented the largest six month period in tonnage throughput across the Central Queensland Coal Network (CQCN). Underlying EBIT reduced 2% due to lower revenue yield from fixed access revenues for the CQCN due to the pre agreed reduction in UT4 transitional tariffs for the full year of $60 million, and increased costs, largely undertaken to improve future volume upside.

Iron ore volumes grew 42% to 15.0mt and underlying EBIT increased 11% from 1H FY2013 to 1H FY2014, reflecting the ramp up in volumes partly offset by a net increase in the direct operating costs of delivering that volume.

The Freight business hauled 24.6mt during 1H FY2014, a decrease of 5% compared to 1H FY2013. Within Freight, Bulk volumes decreased 7% due to the end of the grain haulage contract in Western Australia in October 2012, lower Queensland grain volumes this year and other issues including an unexpected plant shutdown and the closing of a customer's magnetite mine. Partly offsetting this was a 14% increase in Intermodal volumes principally due to new contracts commencing this year.

Aurizon delivered $417 million in capital investment in 1H FY14 of which $215 million was on growth projects, including the Wiggins Island Rail Project (Qld), Hay Point Expansion (Qld) and Rolleston Electrification (Qld), with the balance on sustaining capital expenditure. In December 2013, government approval was received for the $150m Hexham Train Support facility for New South Wales Coal.

Outlook

Aurizon's view on the medium to long term macroeconomic environment remains positive though short-term headwinds in the domestic economy continue to be challenging for many customers.

We remain confident in the long-term drivers of global demand for Australian resources, including coal and iron ore, based on continuing urbanisation and industrialisation of Asian economies.

The strong coal haulage volumes seen in 1H FY2014 have continued in January and February, therefore our expectations for FY2014 have increased to 207-212 million tonnes versus the previous guidance of 200 - 205mt, although it should be noted much of this expected to arise from lower yielding legacy contracts. This takes into account the impact of recent weather events in Queensland that resulted in coal tonnage losses of about 1.5 tonnes (with an estimated loss of about $5 million in revenue as of 11 February), and is subject to no further material disruptions (outside normal expectations) from the wet season, nor industrial action.

We also acknowledge the substantial work ahead, together with some industrial risk, in finalising a range of new Enterprise Agreements this year that will provide the modern, flexible workplace arrangements needed in a highly competitive market.

Aurizon will continue to maintain the intensity of work on transformation and reform initiatives to reduce costs, lift productivity and deliver improved customer service levels. While the results of reform activities will fluctuate over specific periods, Aurizon remains on target to achieve an Operating Ratio of 75% in FY2015.

Finally, I would like to acknowledge the continuing efforts of employees in lifting the Company's operational, commercial and safety performance, and driving value for shareholders."

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