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ASX Market Announcements
ASX Limited
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BY ELECTRONIC LODGEMENT

Aurizon – Half Year Report Media Release

Please find attached media release for announcement to the market.

Yours faithfully

Dominic D Smith
VP & Company Secretary

16 February 2015

Aurizon reports net profit up 188%; dividend up 26%

Aurizon today reported Statutory Net Profit After Tax (NPAT) of $308m for the half-year ended 31 December 2014, an increase of 188% compared to the prior corresponding period result of $107m.

Underlying Earnings Before Interest and Tax (EBIT) was $486 million for the half-year, up 15% against the prior corresponding period (1H FY14: $423m).

Safety performance in the period was marred by a tragic road accident in which two employees and a contractor were killed. The Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR) deteriorated as a result for the first time in five years.

The strong financial result was primarily due to the continuing benefits of Aurizon's transformation program to reduce costs and improve productivity ($69m benefit delivered in 1H FY15) and a $40m net benefit on the sale of surplus maintenance facilities at Redbank (Queensland), offset by $13 million in further redundancies during the period.

The $69m of benefits for 1H FY15 was predominantly driven by productivity improvements and lower discretionary spend within Operations ($57m) and centralised support areas ($12m).

Aurizon remains on track to achieve its 75% Operating Ratio (OR) target in FY15, delivering a 3.1ppt improvement from 78.4% to 75.3% in 1H FY15. The Company's transformation program has delivered cumulative benefits for the 18 month period to 31 December 2014 of $198m, in line with the targeted range of $250m to $300m by 30 June 2015.

There was a 0.8ppt improvement in Return on Invested Capital (ROIC) from 8.6% to 9.4% compared to the prior corresponding half year.

The Board of Directors declared an unfranked interim dividend of 10.1 cents per share, representing a 26% increase on the prior corresponding period. The dividend will be paid on 23 March 2015 to shareholders on the register at the record date of 3 March 2015. The 70% payout ratio has been maintained based on Underlying Net Profit After Tax. The Conduit Foreign Income component of the dividend is nil.

The Company bought back and cancelled 13.4m of its shares at a cost of $60m during the period, following the announcement on 11 November 2014 to buy-back up to 5% of issued share capital over a 12 month period.

The total number of employees fell below 7,000 for the first time, with 6,977 employees at 31 December 2014. (There were 9,390 employees at 30 June 2010, the year of privatisation).

Aurizon today announced the next stage in the structural reform of corporate support functions, in order to reduce costs and achieve alignment with global best practice. Initial expectations are that this will contribute significantly to achieving enterprise financial targets in FY2016 and beyond by looking carefully at structures, resources and processes.

Aurizon also advised today the resignation of long-serving Executive Vice President, Enterprise Services, Greg Pringle. A recruitment process is underway for a new role, aligned with the structural reform work.

Commentary from MD & CEO Lance Hockridge:

"In this subdued, low-growth economic environment, we've been relentless on cost reduction and productivity improvement. Our transformation program is helping us achieve solid earnings growth when overall market demand and revenue are relatively flat," Mr Hockridge said.

"By continuing to deliver sustainable cost-outs, Aurizon remains on track to deliver on its core commitment to shareholders of a 75% Operating Ratio for FY2015 and continuing improvement in returns to our owners."

"Today we've also announced the next phase of structural reform to drive down corporate support costs to a much lower base, coupled with a simpler and leaner organisational structure. While we've achieved savings in this area of $45 million to date, our aim is to achieve at least $100 million in sustainable benefits for the 2016 financial year and beyond."

"A terrible black spot during this period was safety. After five years of continuous improvement, there was a deterioration in safety metrics due to a road accident in October 2014, which tragically resulted in the deaths of two employees and an Aurizon contractor. This accident has strengthened our resolve to achieve ZeroHarm."

Update on key items

- Implementation has commenced for the new Staff Enterprise Agreement (EA) for 1,400 employees in Queensland following ratification by the Fair Work Commission (FWC) in January 2015. Combined with new EAs effected in New South Wales and Western Australia over the past 12 months, approximately half of the Aurizon workforce is now covered by contemporary enterprise agreements.

- Aurizon's request to terminate EAs covering approximately 3,500 Queensland employees (traincrew, operators, construction and maintenance staff) was heard by the Full Bench of FWC in early November 2014. The unions applied to the FWC to reopen the termination case, which was heard on 10 February. Aurizon expects a decision on the termination in the coming months. The Company continues to bargain with rail unions on proposed EAs.

- The Queensland Competition Authority (QCA) published its draft decision on Aurizon's Maximum Allowable Revenue on 30 September 2014, and its draft decision on remaining Policy and Pricing matters on 30 January 2015. The final decision will determine Aurizon Network's regulated revenues for the period FY2014-FY2017, including reconciliation of transitional tariffs in place in FY2014 and FY2015. The timetable for the QCA's final decision on UT4 is by July 2015, however the QCA has stated it may provide updated guidance before this date to provide greater certainty to all stakeholders.

- Aurizon continues to explore longer-term potential growth opportunities. The Company acknowledges the challenging near-term markets for iron ore, thermal coal, and metallurgical coal, and all final investment decisions will be subject to Board approval.

    - In Western Australia work continues to schedule on the development of a tariff for the West Pilbara Infrastructure Project (WPIP). A +/- 25% non-binding tariff proposal is expected to be delivered to partners in March 2015 followed by detailed work on a +/-15% binding tariff proposal through this calendar year, allowing consideration of a Final Investment Decision in CY16.
    - Documentation between GVK Hancock and Aurizon for the development of the Galilee Basin rail and port project is effectively complete and now dependent on a number of third party issues and statutory approvals. The Company remains hopeful of a resolution of these matters in the second half of FY2015.

- Exclusive negotiations are continuing between the Intermodal Terminal Alliance (Qube 67% and AZJ 33%) and the Commonwealth Government for the development/operation of a strategically located freight hub at Moorebank, west of Sydney.

Outlook

Based on the current market conditions, Aurizon's coal haulage outlook for FY2015 remains unchanged from the guidance range of 210mt – 220mt. This is contingent on no adverse weather conditions for the remainder of the Queensland wet season and no significant industrial action as part of continued enterprise bargaining with unions. Iron ore tonnages are expected to be around 23mt for FY2015.

Mr Hockridge commented: "We acknowledge the continuing headwinds for the domestic and international economy and the challenging operating environment which is impacting on many of our customers. Over the longer term we remain cautiously optimistic that Australian commodity growth will be sustained due to strengthened demand from Asia.

"At the Company level we remain committed to the ongoing execution of our transformation and reform program. We continue to aggressively identify opportunities to reduce costs, raise productivity and enhance customer service.

"Finally, I acknowledge and thank Aurizon's employees around Australia for their outstanding contribution to our half year results and for commitment to our pursuit to be a world leading rail-based transport business."

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