ASX Announcement

15 February 2016

Aurizon Half Year 2016 Financial Results

$m	HY2016	HY2015	Variance
Revenue	1,758	1,965	(11%)
EBIT – Underlying[1]	403	486	(17%)
EBIT – Statutory	(23)	486	(105%)
NPAT – Underlying[2]	237	308	(23%)
NPAT – Statutory	(108)	308	(135%)
EPS – Underlying (cps)	11.2	14.4	(22%)
EPS – Statutory (cps)	(5.1)	14.4	(135%)
DPS (cps)	11.3	10.1	12%

[1] Underlying EBIT excludes significant items of $426m (1HFY2015 $nil)
[2] Underlying NPAT excludes significant items of $345m (1HFY2015 $nil)

Aurizon today announced Underlying Earnings Before Interest and Tax (EBIT) of $403 million and a Statutory Loss After Tax of $108 million for the half year ended 31 December 2015.

The half year Underlying EBIT is in line with the guidance provided by Aurizon to the market in December 2015.

The result reflects the difficult trading environment for Aurizon customers with a 5% decline in tonnages and an 11% decline in revenue (compared to 1HFY15, which included a number of previously advised revenue items). 1HY16 revenue is down 4% and underlying EBIT down 2%, compared to 1HY15, when excluding these items (the sale of Redbank workshops, the completion of the QR maintenance contract, the sale of the CRT business, and reduction in Transport Service Contract payments).

The Statutory Loss After Tax includes impairment charges of $426 million. This includes impairments of $240 million outlined to the market in December 2015, and a further $186 million of impairments of which $174 million relates to the West Pilbara Iron Ore Project (WPIOP). As foreshadowed in December, Aurizon has reviewed the implications of the announcement in relation to WPIOP. As a result a further impairment relating to WPIOP and the related investment in Aquila has been made, given an assessment the project was unlikely to proceed in the short to medium term.

The Board of Directors declared an interim dividend of 11.3 cents per share (70% franked), up 12% on the previous corresponding period (10.1cps). The dividend will be paid on 29 March 2016 to shareholders on the register at the record date of 1 March 2016. The 100% payout ratio has been maintained based on Underlying Net Profit After Tax.

Due to a low growth environment, Aurizon has reduced its forecast capital expenditure by $150 million - $200 million for the next 18 months.

The Company bought back and cancelled 28.7 million of its shares at a cost of $140 million during the six month period, following the announcement on 11 November 2014 to buy-back up to 5% of issued share capital over a 12 month period.

Aurizon delivered $56 million of transformation benefits (cost reductions and efficiency improvements) in 1HY16.

Given the current market outlook, the Company will accelerate its program of work to reform its cost base, including the establishment of a dedicated transformation unit with direct CEO oversight. It will identify further opportunities to meet or exceed the $380 million transformation target by FY18.

The Lost Time Injury Frequency Rate (LTIFR) for the half year was zero, a first for the Company.

Return on Invested Capital (ROIC) declined from 9.4% to 8.8% compared to the prior corresponding half year due to lower underlying above rail earnings.

Outlook

In line with current consensus, the Company expects FY16 EBIT in the range of $845 million - $885 million, based on an expectation of:

- Above rail coal volumes of 204 million - 209 million tonnes, stable freight and iron ore volumes,
- Network – no material change in revenue based on the UT4 consolidated draft decision by the Queensland Competition Authority.

The outlook is contingent on no material deterioration in trading environment for customers and no major weather impacts.

Aurizon is still targetting a 70% Operating Ratio (30% EBIT margin) by FY2018, assuming volumes are consistent with FY2016.

Commentary from Managing Director & CEO Lance Hockridge

"Today's profit result is in line with the guidance provided by Aurizon to the market in December," Mr Hockridge said.

Our underlying business is strong and resilient but we need to respond rapidly in a very challenging business environment for our customers. Cost reduction and transformation will remain the key drivers of margin growth and shareholder value creation, and we're determined to pull every cost and efficiency lever available to us.

Aurizon's transformation program since IPO has continued with strong momentum as we drive for benchmark performance across operational, customer service and safety metrics. The latest transformation targets are tracking to plan with $308 million in benefits delivered from 1 July 2013 to 31 December 2015.

However further reform is required in Aurizon's cost base to reflect the changed operating environment. The FY2016 – FY2018 target is set at $380 million and further opportunities will be identified through the establishment of a small, dedicated unit reporting directly to me.

Despite the short-term challenges, Aurizon is in a strong financial position with stable and long-term contractual arrangements with major customers and an ability to continue delivering strong returns to shareholders.

The regulated $5.6 billion Network business generated nearly two-thirds of group earnings this half and continues to demonstrate its value as a stable, defensive asset in a difficult environment."

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