ASX Announcement

Date: 12 February 2018

Aurizon Half Year 2018 Financial Results

$m (Continuing operations)	1HFY2018	1HFY2017	Variance
Revenue	1,565.3	1,621.2	(3%)
EBIT – Underlying	485.3	511.5	(5%)
EBIT – Statutory	485.3	355.5	37%
NPAT – Underlying	281.5	295.0	(5%)
NPAT – Statutory	281.5	185.8	52%
EPS – Underlying (cps)	13.9	14.4	(3%)
EPS – Statutory (cps)	13.9	9.1	53%
DPS (cps)	14.0	13.6	3%

Today, Aurizon reported Underlying Earnings Before Interest and Tax (EBIT) of $485 million for its continuing operations[1] for the half year ended 31 December 2017. This represents a solid financial result despite Underlying EBIT being 5% lower against the prior comparable period (1HFY2017) due to the non-recurrence of one-off impacts of the regulatory true-ups for the Network business in 1HFY2017.

Aurizon's Statutory Net Profit After Tax (NPAT) from continuing operations of $282 million increased 52% from 1HFY2017. The change is a result of the $156 million of impairments and significant items that were recognised in the prior period.

The Board of Directors has declared an interim dividend payment of 14.0 cents per share (50% franked), which is 100% of Underlying NPAT for continuing operations and a 3% increase in dividend payment from 1HFY2017.

Aurizon has completed 75% of the $300 million on-market share buyback, which was announced in August 2017. The balance of the buyback is expected to be completed this financial year.

Aurizon's Free Cash Flow from continuing operations decreased from $387 million to $345 million, reflecting the one-off $98 million proceeds from the sale of the Moorebank terminal in 1HFY2017.

Aurizon's Total Recordable Injury Frequency Rate per million hours worked has increased by 45% compared to the previous period, as a result of updated reporting metrics introduced on 1 July 2017, and an increase in strain-related injuries. These revised metrics have broadened Aurizon's injury definitions to include contractors and all restricted work injuries in an effort to drive further improvements in the Company's safety record and to benchmark performance against global and industry leaders in safety.

[1] As announced on 15 December 2017, Aurizon is now reporting its financial information to reflect the business structure implemented on 1 July 2017. Due to the planned divestment and closure of the Intermodal business, this has been treated as a discontinued operation.

Aurizon achieved $42 million in sustainable transformation benefits in 1HFY2018. Aurizon remains on track to reach its three-year transformation target of $380 million having delivered more than $302 million of benefits since 1 July 2015. The target $380 million will include the benefit of removing $48 million of losses in the Intermodal business.

Commentary from Managing Director & CEO, Andrew Harding

"During the half, Board and management have maintained a sharp focus on the key priorities highlighted to the market in 2017 and this is reflected in today's solid results.

The loss-making Intermodal Interstate business was closed as planned in December 2017; we are on track to deliver on our three-year transformation target of $380 million; and we are 75% complete with the $300 million buyback, and will complete the balance by June.

We have returned $688 million to shareholders since January 2017, and the Board announced an interim dividend today of 14.0 cents per share from the Company's continuing operations.

We are realising improved operational and customer service performance through our simplified business unit structure that came into effect in July, together with relocation of more roles in our very capable workforce to regional hubs. Continuing the momentum of continuous improvement is fundamental to delivering on our FY2018 targets.

Coal

The operating and financial performance of the Coal business remains solid as we see continuing strong demand for Australian metallurgical and thermal coal, with a healthy commodity pricing environment for Australian producers.

Aurizon continues to grow haulage tonnes with new and existing customers, with tonnes increasing 2% in Central Queensland and 12% in New South Wales and South East Queensland during the half. What is particularly encouraging from an industry perspective is new tonnes coming into the market with the impending opening of MACH Energy's Mt Pleasant Mine in the Hunter Valley and QCoal's Byerwen metallurgical coal mine in Queensland's Bowen Basin. Both are new contracts for Aurizon with a ramp-up to a tonnage level of up to 18 million tonnes per annum.

While demand has improved, a competitive haulage market is putting some pressure on contract prices. However, by leveraging innovation, scale and synergies, Aurizon continues to grow volume and value for shareholders with commercial returns on coal haulage contracts. Transformation efforts underway will drive further productivity improvement and cost competitiveness.

Bulk

The turnaround plan for Bulk, detailed to the market in mid-2017 as part of the Freight Review, is gaining traction. There have been cost reductions and operational reforms, such as our improved on time performance of the Kalgoorlie Freighter. We have started hauling zinc concentrate for MMG in North West Queensland and have secured a 10-year contract renewal with Cement Australia in Central Queensland.

Network

Operationally the Network business has performed strongly, with a 3% improvement in volumes to 116.6 million tonnes for the half (112.9 million tonnes in 1HFY2017) highlighting the recovery in throughput after Cyclone Debbie. Network revenue is down reflecting the one off regulatory true-up from UT4 in 1HFY2017.

The outstanding issue is the extremely disappointing Draft Decision for UT5 that was issued by the Queensland Competition Authority (QCA) in December.

Our detailed review has confirmed that the Draft Decision contains fundamental errors and flawed logic. Aurizon will make a detailed submission by the 12 March 2018 deadline. Unfortunately, Aurizon cannot wait for the QCA Final Decision (expected later this year) to implement changes given the significant commercial impacts which, under the QCA process, are retrospective to 1 July 2017.

The QCA states Aurizon should spend less on maintenance than the previous regulatory period (a decision it made in November 2016) for a rail network that has $1 billion more assets to maintain (20% bigger) and which is forecast by the QCA to transport 15% more coal over the four-year regulatory period. The Draft Decision reflects a clear approach by the QCA to drive maintenance to the lowest possible cost regardless of the impact on the supply chain and the consequential reduction in volumes.

Aurizon also cannot reconcile the QCA's decision that Aurizon Network's risk for investing (WACC) should be 5.41%, compared to 6.30% recommended by the Australian Competition and Consumer Commission in 2017 for the government-owned Hunter Valley Coal Network, an asset which many of our customers regard as having a lower risk profile than the Central Queensland Coal Network.

On 30 January 2018, Aurizon advised the coal supply chain that it would progressively introduce changes to align its operating practices and business decisions with the requirements of the QCA's Draft Decision, and reflecting the way we assess and manage risk in a lower return environment. This is not a decision we have made lightly given the impacts to Aurizon's own business and to the Central Queensland coal supply chain, including miners, ports and rail operators and the flow-on effects to regional economies and government royalties. However, Aurizon has little choice given the significant financial impact and the retrospectivity of the QCA process.

Aurizon initially is implementing changes to planned maintenance and capital works. One area of change is that previously Aurizon varied work times and the scope of works to meet customers' requirements, allowing trains to pass during the work schedule. Going forward, Aurizon will prioritise lowest-cost maintenance over flexibility (with no trains passing), a process advocated by the QCA and its consultants. Flexibility maximises the throughput of coal services for customers, however the QCA's Draft Decision states this is an inefficient maintenance practice. We estimate the net impact of initial changes could reduce system throughput by approximately 20 million tonnes annually. As we continue to align our operating practices to the QCA's Draft Decision further changes are likely to be implemented, with potential to further reduce volumes.

Intermodal

The closure and divestment of the Intermodal business is being progressed. The Intermodal Interstate business was closed as planned at the end of 2017, and surplus locomotives as well as experienced employees have transferred to the growing NSW Coal business.

Subject to regulatory approval, we are targeting closure of the transactions for the sale of the Queensland Intermodal business and the Acacia Ridge Freight Terminal on, or around, 30 June 2018. If we are not able to gain ACCC approval for the transaction Aurizon will close the Queensland Intermodal business, as we have done with the Interstate business, and potentially impacting up to 350 jobs."

Outlook

Aurizon confirms its previous guidance for FY2018 of Underlying EBIT in the range of $900 – $960 million.

Aurizon Network has started initial implementation of revised operating and maintenance plans as a result of the QCA's Draft Decision on the UT5 Access Undertaking and this is expected to impact Network availability and throughput. This results in a reduction in above rail coal volume guidance to 210 – 220 million tonnes (previously 215 – 225 million tonnes).

The outlook is subject to no material changes in our customers' trading environment and no major weather impacts.

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