Aurizon Holdings Limited
ABN 14 146 335 622

ASX Market Announcements
ASX Limited
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BY ELECTRONIC LODGEMENT

21 July 2016

Market Update

Please find attached announcement for immediate release to the market.

Kind regards

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ASX Announcement

21 July 2016

Market Update

- Further pre-tax impairments for FY2016 of $73 million for investment in Aquila Resources and $29 million for rolling stock
- Unaudited FY2016 Underlying Earnings Before Interest & Tax (EBIT) of $871 million (guidance of $845-$885 million)
- Above-rail coal tonnages for FY2016 of 206.8 million tonnes (guidance of 204-209 million tonnes)
- Record below-rail coal tonnages for FY2016 of 225.9 million tonnes
- Transformation update

Impairments: Aquila

The Company has undertaken a review of the carrying value of its Aquila investment as part of the FY2016 accounts preparation. A meeting of the Aurizon Board today decided to recognise a further impairment in respect of the Aquila investment of $73 million (pre-tax). This follows a deferral in the timing of the development of Aquila's Queensland coal assets and reflects the material reduction in the long term forecast hard coking coal price of 15% since December 2015. The impairment provides for all known exposures, including Aquila's contractual obligations in respect of electricity and port access arrangements, resulting in Aurizon's investment being written down to nil. As such, Aurizon has no remaining financial exposure to Aquila.

Impairments: Rolling stock:

An additional $29 million (pre-tax) in rolling stock impairments has been recognised to align national fleet requirements with forecast future demand. It also reflects the ongoing transformation benefits arising from continued improvements in efficiency and productivity. This brings the total fleet impairment for FY2016 to $177 million (pre-tax) which represents ~6% of the written down value.

The Aquila and rolling stock impairments are in addition to impairment charges of $426 million (pre-tax) included in the Company's first half accounts. The total charge in respect of impairments for FY2016 is $528 million (pre-tax).

Unaudited results and tonnages

Aurizon today advised underlying EBIT for FY2016 is expected to be, subject to audit, $871 million (compared to guidance of $845 - $885 million).

Above-rail volumes were stable during the fourth quarter, consistent with guidance and reflecting a high contract rate utilisation rate of 96% for Coal and in excess of 100% for Iron Ore. Above rail coal volumes of 206.8 million tonnes for FY2016 were within the 204-209 million tonnes guidance range.

	June Quarter 2016	Full year - FY2016	Full year – FY2015
Coal (million tonnes)	53.0	206.8	211.2
Iron Ore (million tonnes)	5.2	23.7	25.6
Freight (million tonnes)	9.1	40.4	44.4
Intermodal TEU ('000s)	91.1	372.6	372.0

Full details / breakdown will be released at the FY2016 results on 15 August 2016.

Aurizon Network achieved a new performance milestone in FY2016, moving a record 225.9 million tonnes across the four major systems of the Central Queensland Coal Network.

Transformation update

Aurizon has continued to drive initiatives and reforms to meet or exceed its transformation targets. As part of the transformation program, work has commenced in recent weeks to reduce management positions and flatten the leadership structure across operations, together with proposals to better align labour resources across operations and the network business. These include:

- The proposed reduction of approximately 120 leadership positions in Operations, representing approximately 20% of management roles. This is primarily middle and senior management, aiming to simplify and improve service delivery and ensure accountability at the regional level;
- Separate proposals to re-align resources with forecast demand, as customers face lower growth conditions and Aurizon's productivity continues to improve through the introduction of efficient work practices and new technology. The proposals include train crewing and yard operations, maintenance depots, and Network infrastructure production and maintenance. Proposed reductions total approximately 180 roles; and
- Reducing by two the number of direct reports to the MD&CEO, with consolidation of the Enterprise Services and Human Resources functions, as well as Business Development & Strategy and Commercial & Marketing functions. Further management and headcount reductions are expected to flow from these consolidations.

MD&CEO commentary

"Clearly we're operating in a tough and volatile market with lower growth conditions for our customers," Managing Director & CEO Lance Hockridge said. "While the coal market remains challenged, we are sustaining tonnages in our above-rail business and have seen strong below-rail volumes across the Central Queensland Coal Network.

"More than ever in this environment, we are targeting further reductions in our cost base and finding new ways to drive asset and labour productivity. Work is underway across the Company, in reducing management roles, in driving down corporate and support costs and ensuring workforce numbers are aligned to forecast customer demand."

Full financial results and commentary including outlook and guidance statements for FY2017 will be provided at the FY2016 financial results on 15 August 2016.

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