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ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

25 June 2014

BY ELECTRONIC LODGEMENT

Aurizon – Further reform and subdued market conditions driving additional asset impairments

Please find attached announcement for immediate release to the market.

Yours faithfully

Dominic D Smith
VP & Company Secretary

ASX Announcement

25 June 2014

Aurizon announces further reform and subdued market conditions driving additional asset impairments

In December 2013, Aurizon announced that it had undertaken a review resulting in impairments relating to a reduction in the rollingstock fleet and a review of strategic projects.

Since that time, there has been sustained work in implementing further changes under the Integrated Operating Plan (IOP) that is achieving on-going reductions in costs, assets and labour requirements. All key metrics relating to wagon and locomotive utilisation, and labour cost per net tonne kilometre are trending positively, and record tonnages are being transported across the Central Queensland Coal Network.

Building on this work, the Company has undertaken a further review of its asset portfolio and, as necessary is making further asset impairments and additional provisions in respect of voluntary redundancy (VR) costs totalling in the range of $130m-$160m (pre-tax and subject to audit). As a result, impairments and provisions for FY2014 will total $352m-$382m (pre-tax) after including the $222m announced in December 2013.

The impairments and provisions made in 2HFY14 also reflect the Company's best assessment of current and short-term outlook for the domestic and global coal markets, the deferral or cancellations of capital projects by the resources sector, plus a further review of strategic assets.

Managing Director & CEO Lance Hockridge said: "Our continuing focus on, and efforts to build, value and returns in our business through disciplined operations continues to show great progress. The speed and effectiveness of execution of the Integrated Operating Plan gives us the confidence to further refine what we consider to be the right size for our fleet while driving consistent, high quality performance for our customers.

"The impairments announced today, taken in combination with those announced at the half year represent the outcome of an ongoing, in-depth review by the Company of the short, medium and long term market outlook. While that outlook for the resources sector is still very attractive, it is clearly more subdued. These announcements represent a comprehensive response by the Company to those circumstances."

Impairments and provision for voluntary redundancies

	1HFY2014 Actual $m	**2HFY2014 Proposed $m**	**Total FY2014 $m**
Voluntary redundancy	25	30-40	55-65
Rollingstock impairment	147	20-25	167-172
Strategic projects	50	25	75
Asset impairment	-	15-25	15-25
Assets under construction	-	40-45	40-45
Total	**222**	**130-160**	**352-382**

The impairments and provision for voluntary redundancies are summarised as follows:

Voluntary Redundancy program: $30m-$40m – as announced on 8 May 2014, the proposed progressive closure of the Redbank (2015 - 2017) and Townsville (2016) rollingstock maintenance operations will result in a significant number of positions being affected. Additionally, a further 103 positions have been made redundant, largely at the head office, in 2HFY14.

Rollingstock review: $20m-$25m – in undertaking the fleet review at the half year, forecast fleet requirements were based on assumptions regarding timing of operational efficiencies identified as key drivers of the Integrated Operating Plan. As the Plan has been progressively delivered during 2HFY14, further efficiencies have been identified with the consequence that an additional 20 locomotives and 195 wagons have been identified as surplus to requirements. Assumptions underlying the existing Plan are considered by Management to be appropriate, and further material rollingstock impairments are not expected based on the current fleet size and volume outlook.

Strategic projects update: $25m – following recent progress in respect of the joint off-market bid by Baosteel Resources Australia Pty Ltd and Aurizon Operations Limited to acquire 100% of Aquila Resources Limited, Aurizon intends to focus on development of an independent rail and port infrastructure for the West Pilbara. Whilst the Company will continue its interest in respect of development of the East Pilbara Independent Railway, this project is now viewed as significantly longer term in nature. As such, capitalised project costs associated with the project of $19m will be written off. The company has also taken a write down of $6m on its North Queensland expansion projects, reflecting its concentration on the developments associated with the proposed rail and port Joint Venture with GVK Hancock.

Asset Impairment: $15m-$25m – following a full review in 2HFY14 of the Freight business, certain operations have been identified as non-core, resulting in an impairment of $15m-$25m. In accordance with accounting standards, in undertaking the normal year end review of the carrying value of its separately identifiable assets (cash generating units), the company has determined an impairment exists in respect of this non core asset, estimated to be in the order of $15-$25m. The full impairment will be made in 2HFY14.

Assets Under Construction: $40m-$45m – market conditions and the longer-term outlook within the global and domestic resources sector have seen many capital projects either deferred or cancelled. As a direct consequence two projects under development by Aurizon Network, Dudgeon Point and Wiggins Island Project Phase Two, are now considered unlikely to progress in the immediately foreseeable future. On 20 June 2014, Northern Queensland Bulk Ports Corporation announced it was withdrawing its development proposal for the Dudgeon Point Coal Terminal (DPCT), noting the “current and short-term forecast market demand for coal does not support an expansion to the capacity proposed in the DPCT project.” On a similar basis, whilst Aurizon remains fully committed to the Wiggins Island Project Phase One, the current and forecast demand does not support the continued development or investment in incremental capacity in respect of Phase Two. The amounts to be written off exclude those components of the projects that have been specifically underwritten by customers. It should be further noted that the amounts being written off are still underwritten by the regulatory revenue mechanism, and that recovery will be sought through the normal regulatory process, notwithstanding the immediate accounting treatment.

The company will provide full details of these significant items when it reports its FY2014 financial results on Monday 18 August 2014. As previously noted, management remuneration outcomes for FY2014 will be based on profit outcomes after inclusion of costs in respect of VR and asset impairments.

Aurizon also advises as follows with respect to broader matters:

Trading Conditions

Since the release of our most recent throughput numbers overall tonnages shipped have remained strong, and we expect to finish the year within the previously advised coal tonnage guidance levels of 207mt – 212mt. On 12 June 2014 the Central Queensland Coal Network passed for the first time the milestone of 200mt coal shipments in a financial year. We note that, pending resolution of UT4 interim arrangements with CQCN customers, the revenue benefits of over-estimated tonnes will be returned to customers in the current year under the Transitional Tariff arrangements, rather than two years later, as is the usual arrangement under the Maximum Allowable Revenue framework.

UT4

Discussions with customers and the Queensland Competition Authority continue with respect to the resolution of UT4. We understand that rather than separately releasing its draft Network revenue and pricing recommendation, the QCA now intends to include these recommendations in an overall draft UT4 framework to be released later in calendar 2014.

Projects

- Wiggins Island Phase 1 – construction remains on time and on budget, and the project will be available for first coal shipments in mid calendar 2015.
- Proposed GVK/Hancock Joint Venture – negotiations continue and the Company expects to make a further announcement with respect to definitive documents in the coming weeks.
- WA Iron Ore Joint Venture – progress around the off-market bid by Baosteel and Aurizon has been separately reported to the market.

Ends

Aurizon (ASX: AZJ) is Australia's largest rail freight operator and a top 50 ASX company. Each year the Company transports more than 250 million tonnes of Australian commodities, connecting miners, primary producers, and industry with international and domestic markets. It provides customers with integrated freight and logistics solutions across an extensive national rail and road network, traversing Australia. The Company also owns and operates one of the world's largest coal rail networks, linking more than 50 mines with three major ports in Queensland.

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