Aurizon Holdings Limited
ABN 14 146 335 622

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

23 December 2015

Market update

Please find attached announcement for release to the market.

Kind regards

Dominic D Smith
VP & Company Secretary

T +61 7 3019 9000 | F +61 7 3019 0720 | CompanySecretary@aurizon.com.au
Level 17, 175 Eagle St Brisbane QLD 4000 Australia | GPO Box 456 Brisbane QLD 4001 Australia

ASX Announcement

23 December 2015

Market update

Aurizon Holdings Limited (ASX: AZJ) wishes to update the market on a number of business impacts associated with current trading conditions and a challenging near-term outlook for Australian commodities, particularly coal and iron ore.

This includes an update on the West Pilbara Iron Ore Project (WPIP), a revision to above rail coal volume guidance for FY16, more precise guidance on 1H earnings for FY16, and the inclusion of a non-cash impairment charge in the range of $215-240 million (before tax) which will be reported in the Company's Half Year 2016 financial accounts.

West Pilbara Iron Ore Project

The CEO's of the participating companies, Aurizon, Baosteel Resources, POSCO and AMCI, met in Hong Kong on December 21 to review progress of the West Pilbara Iron Ore Project.

While the CEO's received reports on considerable progress in areas such as the capital and operating costs of the mine and infrastructure, the current market conditions and uncertainty about future supply and demand were central to the CEO considerations.

The participants are committed to consolidating the high quality work to date and minimizing Project costs, however no material further work will be undertaken on the definitive feasibility studies. The Aurizon Board has endorsed this decision. The participants agreed to meet again around end of first quarter 2016 to consider market and project status at that time. Aurizon's period of exclusivity will continue until 30 April 2016.

Aurizon is now actively considering the implications of this decision, particularly in relation to employee impacts and Aurizon's carrying value of the project (the current capitalised value of the investment in WPIP via Aquila is $91 million and in addition $80-$85 million of capitalised project costs) and will update the market further at Half Year Results in February.

Earnings and Volumes Guidance

While below rail tonnes on our network are tracking to date in line with the previous financial year our above rail coal volumes are lower than expected. The Company now expects above rail coal haulage volumes to be in the range of 202 – 212mt (previously 210 – 220mt) a reduction in guidance of approximately 3-4%. Given the current market conditions for our coal customers, there is a higher level of uncertainty over second half volumes than in recent years.

The Company's guidance for iron ore and freight volumes remains unchanged.

While the benefits of ongoing operational improvements continue to be realised, these have been offset by the reduced above rail coal volumes together with the previously announced revenue and earnings impacts compared to the prior year. These include a $43 million profit on the sale of the Redbank Maintenance Facility, and the impact of lower revenue from expired customer contracts (TSC, CRT and Queensland Rail) and the award of shares to eligible employees in November 2015, at a cost of $16 million.

Against this backdrop, the Company provides underlying EBIT guidance for 1HFY16 in the range of $390m – $410m (before asset impairments).

Asset Impairments

The Company has undertaken a review of the carrying value of its asset portfolio and will recognise a total non-cash impairment charge in the range of $215-240 million (before tax) for the six months ending 31 December 2015 (subject to audit review and not including any potential impairment arising from the West Pilbara Iron Ore Project).

The impairments, outlined in the table below, relate to the value of Aurizon's investment in Aquila, uncertainty on the timing of the Galilee Basin development opportunity, and surplus rolling stock as a consequence of significant productivity and efficiency improvements. In accordance with past practice the Board has determined that management remuneration outcomes for FY2016 will be based on profit outcomes after inclusion of costs in respect of these impairments.

Item	$m (EBIT)
Aquila investments (equity accounted, after tax)	60-65
Galilee Basin brownfield costs	30
Rolling stock - rolling stock and associated inventory	125-145
Total	**215-240**

Aquila investments

The impairment to the Aquila investment relates to the value of the South African assets (iron ore and manganese) and Queensland Coal assets (including Eagle Downs).

The Aquila Board has carried out a strategic review of the South African projects and decided to place the projects into care and maintenance whilst a divestment programme is initiated.

A supplementary scoping study of the Eagle Downs project has been initiated and the timing of full development is uncertain after the termination of a major contract for the project. Approximately $8 million remains on Aurizon's balance sheet given Aquila's expectation that the mine will be developed.

All other Aquila Queensland coal assets have been written down to nil based on the current market outlook and given no substantial expenditure is planned for 2016.

Galilee Basin

The non-cash impairment of $30 million is associated with the feasibility work for the brownfield expansion of the Central Queensland Coal Network which was undertaken to advance the Galilee Basin development opportunity.

While this amount could be recovered through the regulatory process at a future date, a decision has been made to impair the costs due to uncertainty surrounding the project's timing and the current market outlook. The carrying value for the project is now nil.

Rolling stock – rolling stock and associated inventory

As part of the Integrated Operating Plan, the transformation program work continues to drive significant efficiencies in Operations including rolling stock fleet planning, improved payloads, velocity, and dwell time and reduced variability and costs.

Our focus in this area has seen a marked improvement in performance metrics in recent years, with performance ahead of original expectations over the past twelve months. For example in the two year period to end FY15 locomotive utilisation has improved by more than 29%, wagon utilisation by more than 23%, labour productivity by more than 20% and fuel usage has dropped by approximately 7%. In addition payload in coal tonnes has increased

by more than 6%, the active locomotive fleet has been reduced by approximately 19% and the active wagon fleet by approximately 13%.

The senior leadership team in Operations have driven continued improvements in rolling stock efficiency and productivity and this coupled with lower volume outlook has led to a further revision to Aurizon's Rolling Stock Master Plan (RSMP). This has identified further rolling stock surplus to forecast requirements. Accordingly 124 locomotives and 1,343 wagons will be scrapped or written down to net realisable value. The impairment is expected to be in the range of $125-$145 million and represents approximately 5% of Aurizon's total rolling stock value.

Looking ahead the RSMP will be continuously updated as new productivity and technology improvements come on-line. It should be noted however, that in the absence of tonnage growth exceeding the rate of productivity improvement, it is anticipated there may be further fleet reductions in the future.

MD&CEO Lance Hockridge Commentary

"Notwithstanding the very challenging market conditions for our customers our business continues to be resilient" Mr Hockridge said. "Iron ore, intermodal and below rail coal tonnes remain consistent with previous guidance and above rail coal tonnes are only slightly down on our expectations. Whilst it is disappointing our earnings for the first half of FY16 will be below the prior year's result, the reasons are essentially one off.

"We remain on target to achieve savings totalling $310-$380 million in operations and support costs from FY16 to FY18. This is in addition to the $252 million in transformation benefits delivered in the two years ended 30 June 2015."

For more information:

Investors:
Chris Vagg
+61 409 406 128

Media:
Josie Brophy
+61 418 877 574