Aurizon Holdings Limited
ABN 14 146 335 622

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

31 January 2017

Impairments and transformation costs

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

31 January 2017

Impairments and transformation costs

Aurizon has undertaken a review of the carrying value of its assets as at 31 December 2016, with the Aurizon Board deciding to recognize impairments and significant items of $321 million, pre-tax and subject to audit, as part of its 1HY FY2017 accounts. $85 million relates to the transformation and redundancy program as previously communicated to the market.

Further details will be released on 13 February 2017 as part of the half year financial reports.

There is no change to guidance, with the Company re-affirming FY2017 Underlying Earnings Before Interest and Tax (EBIT) in the range of $900-950 million and total above-rail tonnages in the range of 255 – 275 million tonnes (mt).

Impairments: Intermodal $162 million

The Board has recognized asset impairments of $162 million in respect of the Intermodal business due to trading performance during the first half being lower than expectations. Following the impairment, the residual carrying value of the assets of the Intermodal business is $177 million.

Customer volumes have improved to date in FY2017, with commencement of the national K&S contract in August 2016 and the import export (IMEX) volumes through the Enfield terminal in NSW. The December 2016 Quarterly Above Rail Volumes Report (released to the ASX on 18 January 2017) showed Intermodal volume increases of 10% for the first half compared to the prior comparable period. However, there remains considerable challenges within the intermodal market segment and operational requirements have impacted on the cost side such that overall profitability has declined.

The detailed process of the freight review has provided greater granularity around operational costs, utilization of assets and future capital investment. While the deterioration in underlying trading performance has resulted in this impairment, the freight review is ongoing and no final decision on the future of the Intermodal business has been taken. Accordingly, the impairment does not anticipate the impact of any decisions that may be made following completion of this review. The review is expected to be completed by mid-year 2017.

Impairments: Freight Management Transformation (FMT) project $64 million

FMT was an investment that commenced in 2014 to standardize 18 separate legacy systems for logistics planning, scheduling, ordering and billing to a single platform. Following a review, it has been decided to terminate this project and as a result an impairment charge of $64 million will be recorded in the 1HFY2017 accounts. An amount of $27 million of the total project investment of $91 million remains capitalised on the balance sheet in relation to software and licences, which are currently in use.

A number of elements of FMT have been executed successfully and have delivered transformational benefits in labour and asset efficiency, together with process improvements such as the coal billing system. However, the project scope as originally envisaged was wide ranging with significant risks to implement a number of subsequent modules. Aurizon has assessed the risks of ceasing FMT to the achievement of further transformational benefits as negligible.

Impairments: Freight Review Contract Exit Costs $10 million

As a result of the decision by Glencore to not renew its existing contract with Aurizon to haul mine inputs and outputs between Mt Isa and Townsville, a decision has been made to cease to operate this daily multi-customer freight service from the contract expiry date of 31 January 2017. As a result, $10 million of assets including rollingstock, plant and equipment and associated facilities have been impaired. Aurizon is immediately decommissioning all assets to ensure costs are removed quickly from the business.

Significant items: Transformation costs $85 million

As indicated at the FY2016 results in August 2016, redundancy and restructuring costs of the transformation program are expected to be at least $100 million in FY2017. In 1HFY2017, 494 employees were made redundant at a cost of $64 million. This includes $6 million for redundancies associated with the exit of the Mount Isa freight service, as detailed above. In addition, $15 million of property, plant and equipment was impaired, along with a further $6 million relating to various projects no longer proceeding and assets identified as surplus to requirements.

Commentary by the MD&CEO, Andrew Harding

“A key focus is getting the Company’s core business right and continuing momentum with the transformation program. We will take a very disciplined approach to managing costs and capital to ensure we drive shareholder value.

The FMT project was not delivering value for the business, was at high risk of over-spend and delays, and so it was stopped. By undertaking the freight review we’re getting the granularity we need to make informed decisions and to clearly understand the future value and potential of the businesses in this area.

In parallel to the review, we have determined that interim leadership and structural change for the Intermodal Business are required. We have immediately moved to restructure with commercial and operational activities under a single Vice President, Andy Jakab who is reporting directly to me. This is effective immediately and will continue until at least the freight review is complete. We will also act swiftly on outcomes of the completed review, due mid-year 2017.

Despite these matters, the Company remains on track with its FY2017 guidance and remains committed to its transformation targets through to FY2018. I see great opportunity for sustained long-term improvements in productivity, efficiency and cost reduction.”

For more information:

Investors:
Chris Vagg
+61 409 406 128

Media:
Mark Hairsine
+61 418 877 574