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## BY ELECTRONIC LODGEMENT

### Aurizon on Track with Transformation

Please find attached announcement for immediate release to the market.

Yours faithfully

**Dominic D Smith**  
SVP & Company Secretary

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16 December 2013

## Aurizon on Track with Transformation

As part of an Investor Briefing in Sydney today, Aurizon will announce details of the next major phase of the Company Transformation program, outlining a comprehensive Integrated Operating Plan designed to build on and accelerate efficiency, productivity, and cost reduction efforts across the business.

The Integrated Operating Plan (IOP) is a key part of the Company's Transformation program which will unlock the potential of Aurizon's national footprint within the coal, iron ore and freight supply chains focussing on improved productivity and customer performance. This work has been enabled through previous company initiatives since IPO, including the recent refinement of the functional business structure, greater planning certainty gained from contract renewals/awards and finalisation of senior management changes, in particular the appointment of Mike Franczak as Executive Vice President, Operations.

As foreshadowed in the July Investor Briefing, Mr Franczak, will today outline the results of his review of operations and rollingstock. Mr Franczak, who brings over 25 years of North American Class One railways experience to Aurizon, said the IOP includes a strategic review of the operating plans of key corridors across Australia to maximise productivity. He said part of the review included a 'right size and right fleet' approach which will match supply to demand in the most cost efficient way.

"We have undertaken detailed analysis of the Company's requirements for rollingstock across the national operating footprint for the next five years. The recent settling of several new long-term contracts combined with the acquisition of new rollingstock and improved asset utilisation has provided the framework to undertake this analysis. The result will be improved asset productivity providing one common and transparent rollingstock fleet plan across all operations," Mr Franczak said.

A legacy of the Company's former long history as a government owned corporation is a complex and diverse fleet with more than 59 classes of locomotives and 297 classes of wagons nationwide. Planned targets by FY2018 include a net reduction of the locomotive fleet of 28% (829 down to 598) and the wagon fleet of 12% (18,546 down to 16,292). The planned reductions will be achieved through asset disposals and will simplify the fleet, standardise maintenance practices, reduce materials and inventory as well as run a smaller more efficient fleet.

The planned fleet reduction will result in an asset impairment of \$130 - \$150 million (pre-tax and subject to audit) which will be recognised as an expense in the 1H FY2014 financial statements. However the fleet reconfiguration will deliver a range of financial and operational benefits to the company with a fundamentally reset cost structure including reduced maintenance spend, depreciation expense and fuel costs as well as better alignment of fleet capability with customer requirements.

In parallel with the rollingstock review, Aurizon has conducted a review of strategic projects which has resulted in an impairment of \$47 million (pre-tax and subject to audit). This impairment reflects recent developments in respect of the individual strategic projects, including the recent announcement by Glencore to put the Wandoan mine project on hold and the consequent decision to terminate the Surat Basin Rail Joint Venture. It also includes the consolidation of Aurizon options related to the proposed development of the Galilee Basin consistent with the announcement on 25<sup>th</sup> November about the progression of the proposed transaction with GVK Hancock.

Aurizon will also reveal further restructuring has led to the acceptance of an additional 248 voluntary redundancies across the Company since July 2013. This means that since IPO more than 2,000 people have left the company, a reduction of more than 20%.

Aurizon Managing Director & CEO Lance Hockridge said given good progress on transformation of the business he remained confident about achieving 75% Operating Ratio in respect of FY2015. He said the demand environment of key commodities hauled also remained strong with increases in coal and iron ore for the five months ending November 2013.

"As part of the next step in our transformation journey we are reshaping our operations and fleet for significant productivity and efficiency improvements to deliver better value to shareholders. The safe and disciplined execution of our transformation programs and operating plan, with a heavy focus on productivity, will deliver our financial and operational targets."

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