Australian Shareholders' Association

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Aurizon – Supporting Queensland's Economy

Company/ASX Code	Aurizon Holdings Ltd
AGM date	Tuesday 12 October 2021
Time and location	2pm AEST On-line
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Shirley Watson assisted by Alison Harrington
Pre AGM Meeting?	Yes with Chair Tim Poole

One individual involved in the preparation of this voting intention has a shareholding in this company.

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of issues for meeting

Aurizon is a vertically integrated heavy-haul bulk rail freight operator transporting Australian commodities, connecting miners, primary producers and industry with international and domestic markets. It has an extensive fleet of locomotives and rolling stock in its heavy haul rail infrastructure. Aurizon owns and operates the Central Queensland Coal Network (CQCN).

The most significant risk, although being well managed, arises from climate change and the resultant decisions and changes. Aurizon has to continually refine its business strategy in response to a changing external environment related to market demand for coal and other bulk commodities.

Financial performance

FY21 was again a challenging period for the whole economy; however, Aurizon showed its **ongoing resilience** as a business with Earnings Before Interest and Tax (EBIT) of $903 Million, which is down only 1% from the previous year and within guidance range of $870 - $910 million. Operating costs reduced in line with lower volumes and reduced maintenance costs. Despite lower above rail and network volumes, the company generated a free cash flow of $734 million, which included the sale of the Acacia Ridge Intermodal Terminal. Underlying NPAT was $533 million ($531 million in 2020). Earnings per share increased 5% to 28.5 cents, assisted by recent on-market share buy-backs.

Given the uncertainty, this seems to be a sound result and was mostly contributed to by improved performances from the regulated rail network UT5 and the non-coal bulk haulage business. Viewed over the past 5 years there is a stability in financial outcomes.

Aurizon operates **3 key business segments** with drive its results:

1. **Central Queensland Coal Network (CQCN)** is the largest open access coal rail network in Australia. This provides a strong barrier to entry, thus providing some cost advantages. In FY21 a decrease of 8% in volumes across CQCN was offset by the recovery of non-regulated fees of $60 million from the Wiggins Island Rail Project (WIRP). The regulated Network business produced an EBIT result of $509 million, an increase of 9% on the previous year.
2. In the **Coal segment** the above rail tonnages were down 6% in FY21 mainly as a result of COVID-19 and China import restrictions. This resulted in EBIT for Coal being down 21% to $325 million from the previous year. However, the Coal business, although it faces competition, was able to extend its contract book with a number of contract wins. Long term contacts provide some protection against coal demand volatility – only 5% of contracts expire in the next 3 years. However, on renewal there could be price reductions and hence reduced margins.
3. The **non-coal Bulk segment** produced an EBITDA up 27% to $140 million. Bulk haulage has long been part of the Aurizon business; however, its strong performance in the last 4 years has followed from a **restructure** by CEO, Andrew Harding, which make Bulk into a separately managed Division. Revenue in FY21 was driven by new contracts and growth with existing customers, together with **acquisitions,** such as Conports at the Port of Newcastle and long term rail haulage with CBH in Western Australia. With this diversification away from coal, Bulk has the potential to provide integrated supply chain services for a range of mining, metal, industrial and agricultural customers across a national footprint. It is planned to double Bulk revenue. 80% of the Aurizon workforce is now in the regions.

The company's equity as a percentage of total assets is 43.77%.

A **Dividend** of 14.4 cents, per share, franked to 70%, was paid with a full year **28.8 cents per share** Dividend representing 100% pay out of continuing Net Profit after Tax, for the 6th consecutive year. This is intended to remain the policy of rewarding shareholders. There appears to be demonstrated commitment to shareholder benefit and to remain as a 'dividend' stock. During FY20 there was the completion of a $400 million on-market share buy-back with another $300 million **on-market share buy-back** completed in FY2021.

<u>Culture</u>

From Reports and meetings, Aurizon shows a culture of **openness and respect** for all of its stakeholders.

It is also a culture with a strong continuous **commitment to safety** of employees, customers and the communities in which the company operates. There is a range of protective measures, aligned with expert health and government advice. Safety is considered to be management's highest priority and is developed within the work culture; however, it continues to be an ongoing challenge and focus for improvement. There are 2 primary safety metrics to monitor safety outcomes across the enterprise – Rail Process Safety (RPS) and Total Recordable Injury Frequency Rate (TRIFR). With a deterioration of 8% and 3%, respectively in this period, there is a strong focus in FY22 on targeting the main contributors to TRIFR and RPS and identifying and learning from events that have the potential for serious injury. This year the Board requested a specific Board Safety Strategy Day to review with management a refined Safety Strategy.

It is now 10 years since the heavy haulage section of Queensland Rail was privatised as an IPO called QR National Limited, which is now Aurizon. In a pre-AGM meeting it was said that there has been good progress made in the conversion from a highly regulated, government managed Department to an ASX listed public company. However, it could take another 5 to 10 years to achieve full commercial status.

Risk

The main risk to Aurizon is **climate change** and the future of coal. The company demonstrates good risk awareness and a prioritisation to areas that are likely to impact business. These relate to sustainability, **people safety** and the environment, including physical risks from extreme weather. The longer term revenue risk relates to **coal haulage volume** because about 85% of revenue is linked to domestic coal production. The company expects coal demand to extend to 2030-40 for thermal coal and to 2050-60 for metallurgical coal.

Risks also include changes from legislative and **regulatory oversight**; carbon reduction policies; customer exposure to export markets and geopolitical issues, affecting demand. **Cyber security** also receives much attention – exercises are done to test security in rail networks and trains.

From questions asked of the Chairman an impression is gained of conservative management with a concentration on improved efficiency and reduced operating costs. Aurizon's financial health is good with a sound Balance Sheet and Capital Budgeting with no capital raising. The company's debt level at 45.6% (2020 45.1%) remains stable. It retains a credit rating of BBB+.

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	607	605	474	483	-37
UPAT ($m)	533	532	473	542	495
Share price ($)	3.76	4.92	5.54	4.33	5.36
Dividend (cps)	28.8	27.4	23.9	27.1	22.5
Simple TSR (%)	-17.7	-9.6	28.2	-13.6	15.8
EPS (cents)	28.5	27.2	23.9	24.0	-9.2
ROIC	10.7	10.9	9.7	11.4	9.6
CEO total remuneration, actual ($m)	3.937	3.779	4.337	3.248	3.161

For 2021, the CEO's total actual remuneration was 42 times the Australian Full time Adult Average Weekly Total Earnings compared to 41 times in 2020. (This is based on May 2021 data from the Australian Bureau of Statistics).

ESG

In the pre-AGM meeting the Chairman mentioned that all ESG areas had a **high priority** and were given much attention by the board and management. Aurizon publishes an **Annual Sustainability Report.**

Aurizon acknowledges the effects of climate change and supports the target of zero-net emissions by 2025. Aurizon has reduced its emissions by 20% in the last 10 years and expects a 20% reduction in the next 10 years. There has been little climate change protest action during the COVID-19 period. When replaced near the end of the decade, locomotives are expected to be electric and hydrogen.

In October 2020, Aurizon published its first **Climate Strategy and Action Plan (CSAP).** The CSAP establishes a target of net-zero operational emissions (scope 1 and 2) by 2050. Progress towards its CSAP initiatives will be made through the annual Sustainability Report.

Aurizon published its first **Modern Slavery Statement** in October 2020. Aurizon commits time to ensure that robust standards and processes are in place and also provides transparency on its modern slavery risks. There is considerable attention given to regional community support.

A comprehensive **Corporate Governance Statement**, which complies with the ASX Principles and Recommendations, and was adopted by the Board, is shown in the Annual Report.

Board and Management

There were no changes of directors in the past year. There were 2 senior management changes. David Wenck, with corporate and commercial law experience who joined Aurizon in 2010, was appointed Company Secretary. Gareth Long was appointed to the role of Group Executive Corporate. There is one executive director. The Chairman regards the need in the past for Directors with operational skill backgrounds has been met. ASA requirements of gender diversity, independence and of holding an appropriate number of company shares are met.

Item 2 (a)	**Re-election of Mr Tim Poole as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Poole was appointed Chairman and Independent Non-Executive Director in 2015. He began his executive career with PricewaterhouseCoopers in 1990 before joining Hastings Funds and was the Managing Director from 2005 to 2007. Since retiring from Hastings, Mr Poole has been an investor and non-executive director of a range of public and private companies in sectors including infrastructure, transport, property, financial services and mining. Currently, Mr Poole is a Non-Executive Director of McMillan Shakespeare Limited and of Reece Limited.

Mr Poole brings a breadth of governance experience to the Board and is the Chairman of Nominations & Succession Committee. Member of the Audit, Governance & Risk Management Committee and the Health & Environment Committee. He is independent and holds the required value of company shares. ASA will support his re-election.

Item 2 (b)	Re-election of Ms Samantha Lewis as a Director
ASA Vote	**For**

Summary of ASA Position

Ms Samantha Lewis joined the board in 2015. She has significant experience working with clients in the manufacturing, consumer business and energy sectors. Her expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence.

Ms Lewis is a Non-Executive Director of Orora Limited, Chairman of APRA's Audit and Risk Committee and a Non-Executive Director of Nine Entertainment Co. Holdings Limited.

Ms Lewis is Chair of the Audit, Governance & Risk Management Committee. Member of Remuneration and People Committee and a Member of Nomination & Succession Committee. She is independent and holds the required value of company shares.

Item 2 (c)	Re-election of Mr Marcelo Bastos as a Director
ASA Vote	**For**

Summary of ASA Position

Mr Marcelo Bastos was appointed as a Non-Executive Director in 2017. Mr Bastos is qualified with a B.Eng. Mechanical (Hons) and has more than 30 years of experience globally in the mining industry. Included in his experience is a 19 year career with Vale in senior management and operational positions in Brazil. He held senior positions in BHP. Previously, Mr Bastos was the Chief Operation Officer of MMG Limited with responsibility for the business in four continents and a member of many of the company boards. He is a Non-Executive Director of Iluka Resources Limited and a Non-Executive Director of Anglo American PLC.

Mr Bastos is Chairman of Safety, Health & Environment Committee and a Non-Executive Director of Aurizon Network Pty Ltd. He is independent and holds the required value of company shares.

Item 3	Approval of Grant of Performance Rights to the Managing Director & CEO, Andrew Harding
ASA Vote	**For**

Summary of ASA Position

The meeting is seeking approval to award Mr Andrew Harding 654,613 Performance Rights to shares in Aurizon pursuant to the remuneration LTI plan. Rights equate in value to $2,625,000 being 150% of his fixed annual remuneration for FY22. The number of Rights are calculated by dividing $2,625,000 by the VWAP of shares for the five days ($4.01) leading up to 13 August, 2021. The Rights will vest in four years' time subject to performance hurdles and employment conditions. Performance Rights do not carry any dividends prior to vesting. Mr Harding holds company shares to the value of 125% of his fixed remuneration. In the Annual Report the company does provide shareholders with an overall and detailed explanation of the vesting of the performance rights and the proportion to be vested at defined levels of performance. The granting of these performance rights generally meets ASA conditions, this motion is supported

Item 4	**Approval of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

The remuneration report clearly communicates the executive remuneration structure. Although detailed, the explanations are reasonably easy to understand and interpret. The method of setting out remuneration information demonstrates an intent to have informed shareholders. Targets and progressive thresholds, as well as performance measures are clearly defined.

Remuneration Framework

The Table below represents the remuneration framework for the Managing Director and CEO.

CEO rem. Framework for FY21	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.7	29%	1.7	24%
STI - Cash	1.02	17%	1.53	23%
STI - Equity	0.68	11%	1.02	15%
LTI	2.55	43%	2.55	38%
Total	5.95	100.0%	6.8	100%

Although a high performance standard is being set there is provision to encourage higher achievement beyond targets. A revised remuneration mix for the MD & CEO was implemented in FY21 where a greater portion of the total potential remuneration is weighted towards the LTIA (from 120% to 150%). Cash is now 47%. The remuneration mix for the other Executive KMP remains unchanged. For the MD & CEO, 76% of total remuneration is structured under at-risk STIs and LTIs and 70% is considered at-risk for KMP. From FY21 the LTI hurdles are revised to a 25% weighting to Relative TSR against a peer group within the ASX Index. The 50% weighting to the average annual Return on Invested Capital (ROIC) remains. A strategic transformation measure (25% weighting) has been introduced thus reducing the former 50% TSR weighting to 25%. It is measured over a four year period.

There has been no increase in the base fee of $490,000 for the Chairman and $170,000 for Non-Executive Directors in FY21. The aggregate fees approved by shareholders is $2.5 million.

Overall, ASA will vote to support Remuneration Report.

Item 5	External Auditor Appointment
ASA Vote	For

Summary of ASA Position

There has been a tender process, shareholder nomination and a declaration by Deloitte that it is unaware of any potential conflict of interest. An explanation for the appointment is set out in the Notice of Meeting. ASA sees no significant reason to oppose the appointment of Deloitte as External Auditor and will support this Resolution.