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Removal of much regulatory uncertainty reduces drag on share price

Company/ASX Code	Aurizon Holdings / AZJ
AGM date	Thursday, 17 October 2019
Time and location	2:00 PM Ballroom Le Grand 3, Sofitel Brisbane Central, 249 Turbot Street, Brisbane QLD Australia 4000.
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Fiona Balzer with Shirley Watson and Mike Stalley
Pre AGM Meeting?	Yes, with Chair Tim Poole by teleconference

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

Summary of ASA Position

The share price performance of integrated heavy-haul bulk freight rail operator Aurizon reached an all-time high, benefiting from the reduction in regulatory uncertainty and the year was also successful in terms of extending the expiry profile of the portfolio. This was at odds with the reported a fall in annual statutory net profit after tax (NPAT) of 15 per cent, although performance at a group level looks better comparatively when the $77m losses from discontinued operations are included in the 2018 statutory NPAT.

CEO and managing director Andrew Harding believes that "growth opportunities for Aurizon are sparse[1]", however as befits a transport infrastructure stock, managing all the other levers, be they regulatory, restructuring or capital management (including debt via share buyback, dividends), benefits the organisation.

On other fronts, Aurizon acknowledges a need improve the safety record. According to Andrew Harding, the company's injury frequency rate has deteriorated by 10% flagging the need to address worker health and safety concerns, and the importance of safety has been reprioritised after concerted effort to improve financial returns in the bulk business.

[1] Wiggins, J, "Growth opportunities sparse, says Aurizon CEO", Australian Financial Review, 12 Aug 2019, https://www.afr.com/companies/infrastructure/growth-opportunities-sparse-says-aurizon-ceo-20190811-p52g05

Financial Performance

Repayment of charges to customers associated with Aurizon's regulatory arrangements with the Queensland Competition Authority as well as a new agreement being negotiated with the QCA impacted earnings. As did further industrial action along with unpredictable weather which led to a fall in coal haulage volumes.

Aurizon has benefited from the three-stage resolution of its lossmaking Intermodal business, with sale of Queensland Intermodal to rival Linfox, closure of Interstate Intermodal and the sale of the Acacia Ridge Intermodal Terminal to Pacific National. The terminal sale is subject to Australian Competition and Consumer Commission appeal through Federal Court.

The company's equity as a percentage of total assets has remained constant at 48% since 2018. The group's gearing ratio (net debt/net debt + equity) has decreased by 0.6% since 2018, ending at 41.7% this year from the previous year's 42.3%. The share price as of 30 June 2019 was $5.47 per share with a book price of $2.35. The year-end price earnings ratio was 17.3 times, better by almost 3 points than the previous year's low of 14.7. The final dividend for FY19 12.4 cps, was lower than the 13.1 cps declared in the previous financial year, but franking lifted to 70% for the year.

The company's proposed risk and restructuring capabilities are aimed at freeing up and returning capital as is appropriate given the current gearing levels, low growth and reduced need for capital expenditure. $1.2 billion of additional debt capacity has been identified without impacting on the Company's current credit ratings. The group will be returning surplus capital to shareholders through an on-market share buyback of up to $300 million.

Key Board or senior management changes

In September 2018 Aurizon announced Board Director, Karen Field's retirement from Aurizon's Board, and in May 2019, Director John Cooper retired due to health reasons. The board now comprises seven directors. Chair Tim Poole has reduced his workload elsewhere retiring as Chair Lifestyle Communities (LIC).

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	477	483	-37	72	604
UPAT ($m)	473	542	495	510	604
Share price ($)	5.47	4.33	5.36	4.82	5.13
Dividend (cents)	23.8	27.1	22.5	24.6	24.0
TSR (%)	28.2	-13.6	15.8	-8.6	7.1
EPS (cents)	23.9	24.0	-9.2	3.4	28.4
CEO total remuneration, actual ($m)	4.337	3.248	3.161	3.269	7.617

For 2019, the CEO's total actual remuneration was just over 49 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics). The lift in actual remuneration

Item 2a	Re-election of Russel Caplan as a Director
ASA Vote	**For**

Summary of ASA Position

Mr Caplan was appointed 9 years ago on 14 September 2010, hence this term will be Mr Caplan's final term of being classified as an independent director as per ASA's tenure guidelines. He has sufficient skin-in-the-game in terms of AZJ shares held, meeting and exceeding minimum shareholding limits. ASA commends AZJ's inclusion in the annual report of the easy to read table 10 with the shareholding and proportion of fixed remuneration for each director and executive covered by this policy.

Shareholding is 82,132 or 197% of fees.

Item 2b	Re-election of Michael Fraser as a Director
ASA Vote	**For**

Summary of ASA Position

Mr Fraser was appointed on 15 February 2016. He holds 160% of shares over his fixed remuneration amount, meeting the ASA guidelines for minimum shareholding requirements for NEDs. His relevant experience is in the larger Australian energy generation and infrastructure space.

Mr Fraser's workload includes the role of Chair at APA Group.

As an aside, the appointment of Mr Fraser and Mr Caplan would skew the diversity of the Aurizon board as a result of Samantha Lewis' and John Coopers' retirements. From the current batch of seven NEDs, only two are women. This would mean that the board is comprised 72-28 in favour of male board members and will not meet the ASA's prescribed minimum of 30% of the board comprising of women directors.

Shareholding is 70,000 or 166% of fees.

Item 2c	Re-election of Kate Vidgen as a Director
ASA Vote	**For**

Summary of ASA Position

The ASA notes that Ms Vidgen is up for re-election having been appointed to the board on 25 July 2016. She meets the minimum shareholding requirement, owning shares that are valued over 100% of the NED fixed remuneration.

Ms Vidgen also brings a strong set of skills involving law, energy, infrastructure and finance – all areas of significance to Aurizon's work. Her previous experience in working as the head of Macquarie Capital's coal advisory team is particularly relevant to Aurizon.

Item 3	Approval of LTI grant to CEO/Managing Director Andrew Harding
ASA Vote	For

Summary of ASA Position

There are two measures tested over a four-year performance period, TSR and return on invested capital. As the conditions of the award largely meet ASA requirements, we vote in favour of this motion.

Shareholding is 40,000 or 104% of fees.

Item 4	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Overall, the remuneration report is clearly presented. Target are clearly defined, and the mix clearly shows what percentage of pay is at risk for which factors and what the maximum opportunity is for an executive. The 2016 and 2015 LTI did not vest when tested during the year.

CEO rem. framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.7	31%	1.7	27%
STI - Cash	1.0	19%	1.53	24%
STI - Equity	0.7	13%	1.02	16%
LTI	2.0	37%	2.04	33%
Total	5.4	100.0%	6.29	100%

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan.

The company discloses actual remuneration and allocates LTI awards using the volume-weighted price of AZJ shares. The remuneration structure is divided almost equally with respect to equity and cash and 49% of the total pay is delivered as equity. Over 70% of the total remuneration structure is defined under at-risk STIs and LTIs for the CEO and exactly 70% is considered at-risk for executive key management personnel.

Non-executive director payments and their minimum shareholding requirements have generally been met apart from the exception of Marcelo Bastos who only holds shares equivalent to 27% of his total fixed remuneration and should ideally hold at least 100% or more of the total value of his fixed remuneration prior to his re-election in 2020, but under the company minimum shareholding requirement policy has until November 2023 to achieve this level of shareholding.

Overall, the NEDs have seen a change in their remuneration arrangement resulting in the first change in reward structure since 2012. The structure now has a base fee plus a committee participation fee for directors. The directors also saw a fee increase from a previous amount of $170,000 to $190,000 inclusive of all responsibilities and superannuation. The chairman's fee also saw an increase of $15,000 per annum inclusive of all responsibilities and superannuation, going up from $475,000 to $490,000.

There are no other significant changes to the remuneration structure and the ASA will vote in favour of the adoption of the 2019 remuneration report.

The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.