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Supporting Queensland's economy

Company/ASX Code	Aurizon Holdings / AZJ
AGM date	Wednesday, 14 October, 2020
Time and location	2:00 PM AEST virtual QLD
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Shirley Watson and Alison Harrington
Pre AGM Meeting?	Yes, with Chairman, Tim Poole

Please note any potential conflict as follows: The individual(s) (or their associates) 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 ASA Position

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).

It has been a challenging year for Aurizon with the second part impacted by COVID-19, but it continued to operate through this period as an essential service to the economy. It was reported that there were no significant reductions to demand; however, changes, which were required to haulage and infrastructure services and health and hygiene protocols for employee protection, added complexity and costs to the business. COVID-19 did not produce additional redundancies which occurred at the same level as in other years.

Financial Performance

Earnings before Interest and Tax (EBIT) in FY2020 were $909 million which is an increase of 10% on the previous year and within guidance of $880 - $930 million. Earnings per share increased 15% to 27.2 cents from the stronger earnings and the share buyback. Given the uncertainty, this seems to be a solid result and was contributed to by improved performances from the regulated rail network UT5 Undertaking and the non-coal bulk haulage business.

Aurizon operates within three business segments

- The EBIT of the Coal Segment decreased 1%
- The EBIT of the Network Segment increased 17%

- The EBIT of the Bulk Segment increased by 141%. This increase to an EBIT of $90 million reflects the strong progress made on the Bulk Turnaround Program.

Improved longer term investment certainty, together with lower costs, were achieved with the approval by the Queensland Competition Authority of the 10-year undertaking (UT5) for the CQCN, which is the largest open access coal rail network in Australia. This provides a strong barrier to entry as competitors would require considerable capital to reach this scale.

The company's equity as a percentage of total assets is 44.6%. The share price on 30 June 2020 was $4.92 with a book value of $2.28

An FY20 dividend of 27.4 cents per share, franked to 70%, was paid. This was a pay out of 100% of Underlying Net Profit after Tax which has been the practice of the past 5 years. This is well covered by operating cashflow of 63.8 cents per share. There appears to be demonstrated commitment to shareholder benefit. During FY20 there was the completion of a $400 million on-market share buy-back with another $300 million on-market buy-back announced for FY2021. The Chair mentioned an intention to increase the number of shareholders and to become a good dividend stock.

The company's debt level at 45.1% appears high and has increased from 41.7% in the previous year. This increase was for diversification investment within their haulage business and towards the share buybacks. There is some earnings defensiveness, as 55% of operations are on a regulated asset base. There, however, is the risk that regulatory tariff adjustments by QCA would affect revenue, if larger mines started to close. With the recent completion of the refinancing of its network bank facilities, the company states that it has no further refinancing requirements until 2023. With future coal and fossil fuel investments and expansions exposed to further scrutiny and action from activist groups, monitoring the debt against its coal haulage business is important. In 1H20 there was considerable climate change activism which has temporarily reduced with COVID-19. The Chair and the CEO meet with the environmentalists and have a mutually good understanding. Aurizon is not currently engaged in any Adani discussions on Carmichael.

Management provided guidance for FY21 Underlying EBIT to be between $830 million and $880 million compared with $909 million in FY20 – a decrease of up to 9%. Flat coal delivery volumes are expected; competition has increased for contracts with downward pressure on rates. Improvement is anticipated in 2H21 and FY22.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT ($m)	616	477	483	-37	72
UPAT ($m)	532	473	542	495	510
Share price ($)	4.92	5.54	4.33	5.36	4.82
Dividend (cents)	27.4	23.9	27.1	22.5	24.6
TSR (%)	-9.6	28.2	-13.6	15.8	-8.6
EPS (cents)	27.7	23.9	24.0	-9.2	3.4
ROIC	10.9%	9.7%	11.4%	9.6	6.8
CEO total remuneration, actual ($m)	3.779	4.337	3.248	3.161	3.269

For 2020, the CEO's total actual remuneration was 41 times the Australian Full time Adult Average Weekly Total Earnings compared to 49 times in 2019. (This is based on May 2020 data from the Australian Bureau of Statistics).

Risk

The company demonstrates good risk awareness and a prioritisation to areas that are likely to impact business. These relate to sustainability, people safety and environment, including physical risks from extreme weather. The longer term revenue risk relates to coal haulage volume because almost 90% of revenue is linked to domestic coal production. Risks also include changes from legislative and regulatory oversight; carbon reduction policies; customer's exposure to export markets and geopolitical issues affecting demand. From questions asked of the Chair an impression is gained of conservative management with a concentration on improved efficiency and reduced operating costs. The balance sheet and capital budgeting are sound, and the company retains a good credit rating.

Aurizon has benefited previously from the sale of its Intermodal businesses. The sale of the Acacia Ridge Intermodal Terminal progressed when the Full Federal Court dismissed the ACCC appeal against the sale. The ACCC has since sought permission to appeal that decision in the High Court. There is hope that this matter will be settled by the end of the year. Whichever way the decision goes there is little financial impact. The terminal is currently operating profitably.

Culture and Governance

The Aurizon Board takes its ESG responsibilities seriously. It publishes an Annual Sustainability Report and is about to release a Climate Change Action Plan with short term and long term strategies. It is also releasing a Modern Slavery Statement

There seems to be a strong commitment to the safety of employees, customers and the communities in which the company operates. There are 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 but continues to be an ongoing challenge and focus for improvement. There was one road accident fatality in the year. There was a 10% improvement in the recorded safety injury frequency rate but an 8% deterioration in rail process safety.

Board and Management

The only change is the addition of two directors who joined the Board on 1 December 2019. Dr Ryan and Mr Strambi seek formal election at the AGM in October 2020. A full skills matrix review preceded these appointments, which now fill any identified operational skill gaps.

With the appointment of Dr Ryan, the Aurizon Board now meets with the ASA diversity requirement of a minimum of 30% female directors. Apart from the two directors who were appointed only this year, the minimum shareholder requirement of at least 100% of the value of their fixed remuneration has been met by three of the other seven directors – two of whom are well in excess of the minimum.

Item 2a	Election of Dr Sarah Ryan as a Director
ASA Vote	For

Summary of ASA Position

Dr Sarah Ryan has 30 years' experience in technical, operations, and senior management positions in the Oil & Gas Industry both in Australia and internationally, thus bringing a breadth of energy sector knowledge to the Board. Dr Ryan has 'skin in the game' appropriate to her length of time on the Aurizon Board with a shareholding of 31% of her fixed remuneration amount. On joining the Aurizon Board, Dr Ryan reached the ASA maximum recommended workload of a Non-Executive Directors, as she has 4 other director positions.

However, Dr Ryan is already making a contribution as a Member of the Audit, Governance & Risk Committee and the Safety, Health & Environment Committee.

ASA agrees with the election of Dr Ryan and votes for this motion.

Item 2b	Election of Mr Lyell Strambi as a Director
ASA Vote	For

Summary of ASA Position

Mr Strambi brings a wealth of experience from 40 years' experience in the aviation and transport sector to his role as a Non-Executive Director. He is the CEO & Managing Director of Australian Pacific Airports Corporation (APAC) operating the Melbourne and Launceston Airports. Previous to that, he has held other significant executive positions.

Mr Strambi, at this time, holds 72% of the value of his fixed remuneration in shares.

Considering all of the relevant facts, the ASA will vote for his appointment as a director.

Item 3	**Grant of Performance rights to the Managing Director & CEO, pursuant to the Company's Long Term Incentive Plan (2020 Award)**
ASA Vote	**For**

Summary of ASA Position

On careful consideration there appears to be no significant reason for ASA to oppose the granting of performance rights to Mr Harding pursuant to his performance over the next four years. ASA does encourage vesting periods of at least four years. 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. There are also explanatory notes in the Notice of Annual General Meeting.

As the granting of performance rights largely meets ASA conditions, this motion is supported

Item 4	**Approval of Potential Termination Benefits**
ASA Vote	**For**

Summary of ASA Position

In 2017, shareholders approved the granting of potential termination benefits for a three year period with expiry at 2020 AGM.

The Plan Rules, relating to their general operation, under which the Board has the discretion to determine how Potential Termination Benefits are paid to the participant are clearly detailed in the Explanatory Notes. These conditions read as comprehensive and fair.

Shareholder support is now requested to refresh this approval for a further limited period of three years from 2020 AGM to 2023 AGM.

Under the conditions set out there appears to be no apparent ASA reason to disapprove this motion, so we will vote in favour.

Item 5	**Adoption 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	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.7	31%	1.7	27%
STI - Cash	1.02	19%	1.53	24%
STI - Equity	0.68	13%	1.02	16%
LTI	2.04	37%	2.04	33%
Total	5.44	100.0%	6.29	100%

Although a high performance standard is being set there is provision to encourage higher achievement beyond targets. Remuneration is equally divided between equity and cash. For the Managing Director and CEO, 70% of total remuneration is structured under at-risk STIs and LTIs and 69% is considered at-risk for the key management personnel. The LTI hurdles are measured by a 50% weighting to Relative TSR against a peer group within the ASX Index and 50% weighting to the average annual Return on Invested Capital (ROIC) over a four year period.

Following a change in awards in 2019 the Non-Executive Directors have a base fee plus a committee participation fee. There has been no increase in the base fee of $490,000 for the Chairman and $190,000 for Directors in FY20.

Overall, the ASA recommends the Remuneration Report and will vote to support it.