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Out of the fire and into the pan(demic)

Company/ASX Code	AusNet Services/AST
AGM date	16 July 2020
Time and location	2pm virtual meeting, https://web.lumiagm.com/?fromUrl=332534070
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Mike Robey assisted by Jason Cole
Pre AGM Meeting?	Yes with Chair Peter Mason, Director Sally Farrier, IR John Nicolopoulos, Luke Maffei, HR Geraldine Leslie, Paul Cooper, Co. Sec. Paul Lynch

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

Summary of ASA Position

AusNet owns and manages three separate energy related assets in Victoria. They own the entire Electricity transmission Network (the huge towers striding the Victorian country), one of five electricity distribution networks (smaller poles and substations) and one of three gas distribution networks (the pipes). The major portion of their revenue is set by the financial factors set by the regulator, namely the tax allowance structure and the rate of return, which are reset at regular intervals. The next resets are early in 2021 (electricity distribution price), 2022 (electricity transmission revenue, fixed and independent of volume) and 2023 (gas access arrangement), so will not affect the current financial year but will kick in during FY21. A small portion of their revenue comes from a business unit called Mondo, which supports a corporate market without regulated pricing, in the renewable energy sector. This is contracted infrastructure, such as the interconnection of wind and solar farms to the electricity grid, the construction and management of a battery storage facility and so on. Mondo brings in 7.9% of the revenue of AST, down from 9.2% in 2019 in part due to their exit from low margin field services contracts.

<u>Environmental, Social and Governance (ESG)</u>

AST acts responsibly in the **Environmental/Climate change** area. It has a dedicated Business Unit called Mondo which supports the management and transmission infrastructure required for renewables, both solar and wind, and has a number of active community projects helping the community transition to 100% renewables via micro and mini grids. They also report on reductions in gas leaks from their pipelines brought about by a program of pipeline replacement as well as reporting reduction in their total CO_2 emissions. In addition they have joined both regulators and a University cooperative research council to examine the requirements for the introduction of hydrogen as an emerging fuel. Whilst they may have internal reduction targets, these are not published nor linked to Executive remuneration in a way we can overview. Since global warming is not critical to the sustainability of the company they do not report any longer term risks and opportunities for their business of an increase in global temperature, such as the financial reporting recommended by TCFD (Taskforce for Financial disclosure) and used by the major energy and materials companies in the ASX.

In the area of **social responsibility** they have commenced a process of ensuring compliance with the obligations of the modern slavery act, they have a targeted program of employment of women engineers and they report on the % of women in the workforce at all levels, with significant increases in all levels of employment, but with some way to go to reach gender parity at any level. Safety data were slightly poorer this year, from an all-time best result, which appears to have originated in the contracted workforce, but the culture of safety first seems to be strong.

The AST capability for **risk and resilience** has been acutely tested over the past year, initially with their response to the catastrophic bushfires in the Eastern part of Victoria over summer and then with the Covid-19 outbreak. They are a company with a well documented and practised resilience methodology, primarily for the mitigation of bushfire impact on their networks but which prepared them well for the pandemic. Their (duplicated) control centre apparently switched seamlessly from one crisis to the next and the business continuity was largely unaffected. They also had a unique advantage in having both Chinese and Singaporean nationals on the Board who channelled best network practices from their countries' handling of the pandemic, underlining the value of diversity on Boards.

Financial performance including dividends and shareholder returns

All financial measures were up YoY as can be seen in the table below,

Key Board or senior management changes

The long serving CEO Nino Ficca retired on schedule during the year and was replaced by Mr Narvaez, who most recently was the CEO of Endeavour Energy, an electricity distribution company servicing greater western Sydney , the blue mountains, southern highlands and the Illawarra.

The CFO Mr Newman resigned during the year and was replaced by Mr Mark Ellul.

ASA focus issue (not discussed under remuneration report or re-election of directors)– ie shareholder participation (if relevant)

Gender diversity of the Board at 22% remains below the benchmark of 30% in large part because the principal shareholders from Singapore Power and China State Grid, which together own 51% of AST, have chosen to nominate four male Directors. We have raised this at previous AGMs in the hope that the message will get back to their parent companies when the next nomination occurs. The current Chairman has also apparently advocated for our position.

Skin in the game for Directors is an issue, with only one Director, Ms Farrier having a shareholding amounting to a full year's remuneration. There is no policy for minimum share ownership by Directors. We have also raised this over three AGMs with little response. Clearly when four of the Directors are nominees of shareholders owning over 50% of the stock, then personal skin in the game is less of an issue, but the remaining five Directors have no reason not to have the full amount and even the nominee Directors should buy stock to show personal faith in their company, given that we pay them a handsome salary. At this stage Mr Li (appointed late 2018, nominee) and Mr Milliner (appointed 2015, not as a nominee) have no shares at all in AST.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT ($m)	290.7	253.9	291.4	255.1	489.3
UPAT ($m)	286.8	253.9	291.4	255.1	326.2
Share price ($)	1.71	1.77	1.62	1.69	1.49
Dividend (cents)	10.2	9.7	9.2	9.8	8.5
TSR (%)	2.4	12.4	5.1	19.6	4.9
EPS (cents)	7.8	7.5	8.1	7.1	9.3
CEO total remuneration, actual ($m) Ficca (7 Months)	2.119	2.879	3.090	3.162	2.856
CEO total remuneration Actual ($m) Narvaez (5 Months)	1.617	0	0	0	0

For 2020 the combined CEO's total actual remuneration was **42 times** the Australian Full time Adult Average Weekly Total Earnings (based on Nov 2019 data from the Australian Bureau of Statistics). This metric is distorted by the costs associated in the change in CEO and will reduce in coming years.

Item 2(A)	**Re-election of Dr Ralph Craven as a Director**
ASA Vote	**For**

Summary of ASA Position

Dr Craven is a nominee of the China State Grid, the 20% shareholder of AST and was first appointed in 2014 and is well qualified for this role having both Engineering and electricity transmission experience amongst others. He has only a modest holding of AST shares, which we will raise at the AGM, but he is an appointee of the China State Grid company, so has vicarious skin in the game though them. He has three other Directorships in Genex, a power generation company, Multicom, a renewable energy company and a Vanadium mining company, so brings a set of complementary business experiences to this Board. It would be hard to find a better qualified candidate.

Item 2(B)	Re-election of Ms Sally Farrier as a Director
ASA Vote	For

Summary of ASA Position

Ms Farrier has had a distinguished career and a broad range of Board positions in both public and Government institutions associated with the utilities sector, which with her Chemical Engineering background puts her in a great position to serve on this Board. She is the Chair of the Remuneration Committee and is the only Director with the ASA guideline holding of shares. She does not currently serve on other Boards and is well suited to this position.

Item 2(C)	Re-election of Dr Nora Scheinkestel as a Director
ASA Vote	UNDECIDED

Summary of ASA Position

Dr Scheinkestel is also a Director of Telstra and Chairman of Atlas Arteria as well as a Director of Atlas Arteria International, all ASX100 companies whilst holding the Chair of the Risk and Audit committee at AST. This puts her at the top of our guideline for workload but she has extensive experience at Board and Chairman level of Australian infrastructure companies and is also well matched to this company. She has a largish holding of AST shares which falls short of the ASA guideline of a year's fees in shares after 3 years in office. Should we receive confirmation that she supports our position on supplementing her shareholding and commits to increase this in the near future we would alter this vote to FOR.

Item 3	Adoption of Remuneration Report
ASA Vote	FOR

Summary of ASA Position

	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.150	45.5	1.150	34.5
STI - Cash	0.460	18.2	0.690	20.7
STI - Equity	0.230	9.0	0.345	10.3
LTI	0.690	27.3	1.150	34.5
Total	2.530	100.0%	3.335	100%

The remuneration report was extensive and well written and in as much as any remuneration report is never a page turner, this one was laid out in a shareholder friendly way. It was complicated by the fact that the first CEO, Mr Ficca served only 7 months of the FY and his successor Mr Narvaez the remaining 5 months. Mr Narvaez was awarded a sign-on bonus of $750K comprising $300K cash immediately and two year deferred share rights amounting to $450K (247,907 rights) as well as $100K relocation costs for his family to move from Sydney to Melbourne. The ASA opposes sign-on bonuses in general, but in those circumstances where it is deemed necessary to compensate for foregone incentives, our guideline is to pay three to five year deferred rights, to ensure that the generous upfront payment is rewarded by long term performance. This is clearly not the case here. It is also disappointing that suitable internal talent wasn't developed in time for Mr Ficca's well signalled retirement. We were advised that a full search (internal,external and International) was conducted and Mr Narvaez was the clear first choice. He apparently forewent an incentive which was greater than the sign-on bonus. The salary package was reduced from the outgoing CEO, with a lower fixed component (88%) and reduced LTI (120% to 100%) and STI (100% to 90%) maxima. Having outlined our misgivings with the sign-on bonus, the balance of the package was well below that of the incumbent, and though his sign-on arrangements are not in line with ASA policy, we will reluctantly accept the end compromise position. We have also been impressed by the performance of Mr Narvaez during the twin shocks of the bushfire and Covid-19.

Mr Narvaez received 84% of his pro-rata maximum short term incentive (STI) for the 5 months served in the FY.

The long term incentive (LTI) for the outgoing CEO from 2017 vested this year at 65.6% of maximum.

The fixed amount of remuneration for the incoming CEO and the structure of the STI and LTI is largely in line with industry benchmarks and our guidelines, with a third of the STI deferred for 2 years and suitable measures of performance. STI measures comprise earnings before interest, tax, depreciation, and amortisation (EBITDA), return on equity (ROE) and operational expenditure (opex) with a gateway of cashflow as well as safety and strategic outcomes. LTI measures were relative total shareholder return (rTSR, 50%), earnings per share (EPS, 25%) and return on invested capital (ROIC, 25%) over 3 years (and not our guideline 4 or 5 years).

The Chairman received a 15% remuneration increase from $430K to $495K. Our benchmark data shows that for all companies of equivalent market capitalisation the Chairman receive about $411K, so an already above benchmark rate has been further increased, and at a time when a sense of executive wage restraint exists in the ASX200, owing to the economic impacts of Covid on many businesses. In addition, the expected increase year on year (YoY)_ for this benchmark group before Covid ranged from 0 to 1.7%. In discussions with the remuneration Chair we have received the benchmark data from Ernst and Young upon which they based their increase, which justified their choices. This differed from our more general benchmarks and used the appropriate ASX50 to 75 group of companies. Whilst the timing of the payrise is poor, the quantum is reasonable and will be supported by the ASA.

In contrast the NED remuneration was also lifted, by 7% still but fell within both of the benchmark bands, so was without controversy

Item 4	**Renewal of proportional takeover provisions**

ASA Vote	**For**

Summary of ASA Position

This is a standard requirement in the event of a takeover. Given the control exerted by Singapore Power and China State Grid, there is no takeover in play nor likely. This resolution will be valid until 2023.

Item 5	**Grant of equity awards to Mr Narvaez**
ASA Vote	**For**

Summary of ASA Position

This is for the maximum LTI award granted in 2020, as well as the deferred STI component in keeping with the remuneration report. The amounts are 601,402 ($1.15M) for the maximum LTI and 50,117 for the granted STI ($95.7K) respectively.

Item 6	**Issue of shares 10% pro rata**
ASA Vote	**For**

Summary of ASA Position

Clause 3.1 of their constitution requires that approval be sought for the issue of new shares, despite the ASX listing rule 7.1 permitting the issue of 15% new shares without shareholder permission. This stems from provisions from the Singapore stock exchange (SGX) Regulation (where AusNet is also listed) which pre-existed the restructure in 2015 from SP AusNet to the new AusNet Services. This resolution remains in force for 18 months unless changes are approved by shareholders.

Item 7	**Issue of shares pursuant to a dividend reinvestment plan**
ASA Vote	**For**

Summary of ASA Position

As per the above this is a requirement in order to issue shares under a dividend reinvestment plan (DRP), subject to ASX listing rules. We support the ability to reinvest dividends into new shares.

Item 8	**Issue of shares pursuant to an employee incentive scheme**
ASA Vote	**For**

Summary of ASA Position

AusNet does not currently have an employee incentive plan but wants the ability to be able to create one. We have no issue with this.

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