



Aurizon sees growth in bulk commodities and network rail transportation

Company/ASX Code	Aurizon Holdings Limited/AZJ
AGM date	Thursday 18 October 2018
Time and location	2:00pm (Brisbane time) The Sofitel, 249 Turbot Street, Brisbane, QLD
Registry	Computershare
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Michael Waterhouse & Johan Snyman
Pre-AGM Meeting?	Yes, met with Chair Tim Poole

Item 1	Financial Statements and Reports
ASA Vote	No vote required

Summary of ASA Position

(As at FYE)	2018	2017	2016	2015
NPAT (\$m)	483	-188	72	604
UPAT (\$m)	542	495	510	604
Share price (\$)	4.33	5.36	4.82	5.13
Dividend (cents)	27.1	22.5	24.6	24.0
TSR (%)	-14.2	15.9	-1.0	8.0
EPS (cents)	24.0	-9.2	3.4	28.4
CEO total remuneration, actual (\$m)	3.248	3.161	3.269	7.617

* TSR: $\text{previous year end share price} - \text{current year end share price} + \text{Dividends} = \text{TSR for year} / \text{Previous year end share price} (\%)$

For 2018 financial year the CEO's total actual remuneration represents **37.8 times** the Australian Bureau of Statistics, Australian Full time Adult Average Weekly Total Earnings of \$85,956 pa (\$1,653/week annualised) (reported May 2018, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>).

Overview

Aurizon Holdings is an integrated, heavy-haul, bulk freight rail operator managing and operating The Central Queensland Coal Network (CQCN)¹. Throughout the past three years to June 2018 the company has completed a \$380million improvement in sustainable business and operational productivity along with cost reductions.

Aurizon exited the Intermodal business during the year. The company ran its final Intermodal business service outside Queensland in December 2017 before concluding its sale to a consortium of Linfox and Pacific Northern. Separately, the Queensland portion of their Intermodal business sale to the same consortium along with the sale of Acacia Ridge Terminal to Pacific National, required regulatory approval.

In July 2018, the Australian Competition and Consumer Commission (ACCC) rejected the Queensland sale and commenced proceedings against Pacific National and Aurizon in the Federal Court of Australia for collusion to impede competition. While Aurizon is appealing this regulatory decision, the company ceases operating these loss-making Queensland facilities pending the court outcome. Aurizon faces a further regulatory challenge with the Queensland Competition Authority's release of their preliminary UT5 Access Undertaking Finding Report. Aurizon is also appealing against this QCA preliminary finding.

Financial Performance

Aurizon's FY2018 Total Revenue of \$3,113 million was down 1% from the previous year (\$3,143 million 2017). Underlying Earnings (Net Profit After Tax before abnormals) were \$542.1 million delivering a Statutory Earnings result of \$483.0 million (significant improvement over a \$187.9 loss in 2017).

For the first time the company out-performed its 70% Operating Ratio (OR) Target with a 69.8% OR for FY2017/18 (however this result was influenced by the exit from the Intermodal business). The Coal haulage division also secured new long-term 10% growth with contracted haulage volumes from major customers in Queensland and New South Wales.

Shareholder Performance

From a shareholder perspective, despite the completion in the first half of 2018 of the company's \$300 million share buy-back return of capital to shareholders program, Equity as a percentage of Total Assets declined further from 51% to 48%. Aurizon's Long-term Debt of \$3.4 billion is now 72% of Equity an increase from 66% in 2017. This is also reflected in the group's Gearing ratio (net debt/ [net debt + equity]) which increased from last year's 39.6% to the current 42.3%.

The year-end share price of \$4.33 was a 1.82 multiple of the Equity per share (Book price) of \$2.38 and the year-end PE ratio of 14.7 was at an historical low. Total Shareholder Return for the current year was down 14.9%. Cashflow from operations per share was 64.4cps and Capital Expenditure was 24.8cps leaving 39.6cps Free Cash. Paid out dividend for FY2017/18 totalled 27cps.

The number of shareholder owners of Aurizon Holding at year-end 2018 decreased by 5% to 46,368 (48,804 in June 2017); while 95.6% of total shareholders (44,344 shareholders) hold between 1 – 10,000 shares (up to approximately \$45,000 in portfolio value); the 20 largest shareholders control 92.0% or 1,830.9 million shares (91.6% or 1,878.9 million shares) of the total 1,990.1 million issued shares (2,051.8 million shares in 2017).

¹ See further information about the business on final page of voting resolutions

Item 2 Election of directors

Director Shareholding as at 30 June 2018					
Director	2018	2017	Director	2018	2017
*T Poole	90,500	90,500	K Field (retires)	40,458	40,458
A Harding	10,000	nil	M Fraser	40,000	40,000
*M Bastos	11,400	Not Director	*S Lewis	33,025	33,025
R Caplan	82,132	82,132	K Vidgen	40,000	40,000
J Cooper	95,000 (+10k)	85,000	* Directors standing Re-election 2018		

Item 2a	Election of Directors Mr Tim Poole
ASA Vote	Undecided

Summary of ASA Position

Mr Poole is standing for re-election to the board of Aurizon and is expected to retain the role of chair. His roles also include Chair of Lifestyle Communities Limited and McMillan Shakespeare Limited and Non-Executive Director of Reece Limited. Under ASA Guidelines this is equivalent to 7 directorships (exceeding ASA Guideline of no more than 5 equivalent directorships, where a Chair role is equivalent to 2 directorships).

WE are not calling into question Mr Poole's dedication or competency. He attended all required Board meetings. During the pre-AGM meeting discussion, we asked how the Chair manages his workload. Mr Tim Poole strives to 'add value' and is intimately involved in Aurizon Board matters. He has attended many unofficial commitments on behalf of Aurizon while other Board members were unavailable. He also spoke of his close involvement in Board and company affairs with regular communications with the CEO in addition to attending site visits and meeting with Aurizon customers and stakeholders outside of official Board meeting commitment. Our discussions also broached Board diversity and gender equality opportunities for Board renewal along with the difficulty in finding people with appropriate broader skills and experience needed by the Board.

However the issue is what happens if there is a crisis at any one of these companies, or if there is a crisis at more than one company at a time. We will be making this point at the AGM and will determine our vote at that time.

Item 2b	Election of Directors – Ms Samantha Lewis
ASA Vote	For

Summary of ASA Position

Ms Lewis has extensive financial experience including lead auditor of some listed major Australian companies. She has wide working experience in the manufacturing, consumer business and energy sectors, including external audits, accounting and transactional advisory services. Her expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence.

As an Aurizon Board member, Ms. Lewis is Chair of Audit, Governance & Risk Management Committee; member of Remuneration & Human Resources Committee; and member of Nomination & Succession Committee

Ms Lewis is also currently a NED of two other public companies - Orora Limited and Nine Entertainment Co. Holdings Limited. Ms Lewis is also a Board Member and member of APRA's Audit Committee and APRA's Risk Committee. (At 4 equivalent Board memberships, Ms. Lewis satisfies ASA guidelines.)

Item 2c	Election of Directors – Mr Marcelo Bastos
ASA Vote	For

Summary of ASA Position

Mr Marcelo Bastos, was appointed to the Board in December 2017 as an additional Non-Executive Director (NED). Marcelo Bastos is a Non-Executive Director of Aurizon Network Pty Ltd., Member of Safety, Health & Environment Committee; and currently holds 11,400 shares in Aurizon Holdings.

Mr Bastos holds equivalent of 4 NED positions and satisfies ASA guidelines. Currently he a Non-Executive Director of Iluka Resources Limited (appointed 2014); External Director (Non-Executive Independent) of Golder Associates; and, in September 2018 was appointed a Non-Executive Director of Oz Minerals Limited.

Mr Bastos has more than 30 years of experience in global mining and senior leadership with major sectors of the mining industry including iron ore, gold, copper, nickel, zinc and coal. As a former MMG Limited Chief Operating Officer, he was responsible for the business stretching over four continents and director of many MMG group companies. Prior to MMG, he spent seven years with BHP Billiton as President Nickel Americas, President Nickel West, and Chief Executive Officer and President of BHP Billiton Mitsubishi Alliance.

Item 3	Approval of LTI Grant of 459,911 Performance Rights to the Managing Director & CEO Mr Andrew Harding
ASA Vote	For

Summary of ASA Position

The Board's current Remuneration Program was approved by shareholders at the 2017 Annual Meeting and includes an LTI assessment period of four (4) years. The two (2) performance measures for the 4-year LTI assessment period are: Total Shareholder Return (TSR) and Return on Invested Capital (ROIC); equally weighted.

The awarded maximum number of Performance Rights for the LTI assessment period 1 July, 2018 – 30 June 2020 is valued at 120% of Mr Harding's Fixed Annual Remuneration (FAR) for 2018 divided by \$4.48 for maximum number of "Performance Rights" (\$4.48 is the VWAP - Volume Weighted Average Price traded between 13 August and 17 August 2018.) The 459,911 maximum Performance Rights represents a value of \$2,060,040 and at 120% of FAR equates to a Fixed Annual Remuneration of \$1,717,000. Mr. Harding's FAR in 2018 was \$1.7 million. This is in accordance with the 2017 AGM Approved Remuneration structure.

Unmatured LTI incentives are:

The 2017 AGM approved an initial 4-year LTI assessment period due on June 30, 2021 of a maximum **295,938** Performance Rights related to two (2) equally weighted performance measures: **Total Shareholder Return (TSR)**, and **Return on Invested Capital (ROIC)**.

Also approved at the 2017 AGM were two, 3-year LTI performance assessment periods - one due @ June 30, 2019; and; the other due @ June 30, 2020).

- a) The June 30, 2019 assessments offering a maximum **463,636** Performance Rights with three (3) performance measures: **Total Shareholder Return (TSR)**, **Return on Invested Capital (ROIC)**, and, **Operating Ratio (OR)** with weighting of 35%, 50%, 15% respectively); and,
- a) The June 30, 2020 assessment offering a maximum **295,938** Performance Rights with two (2) performance measures: **Total Shareholder Return (TSR)**; and, **Return on Invested Capital (ROIC)**; with equal weighting.

Item 4	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Remuneration Structure

The remuneration structure or framework was approved at the 2017 AGM. Only the STI performance variable weighting and the LTI hurdle levels were changed from last year. The Remuneration provides the details and performance levels for both STI and LTI along with the FAR over the past year and the maximum awards available for the period beginning July 2018. It is an informative and comprehensive report. ASA commends the Board on its transparency and clarity.

FY2018 STI Awards

The FY2018 STI financial hurdle of underlying EBIT has a weight of 40% (EBI Target @ \$931 mill.; Stretch @ \$941 mill.); Enterprise Transformation through cost reduction & capital management savings has a weight of 20% (Target @ \$80 mill.; Stretch @ \$86 mill.); Safety weighting of 10% (Target @ 15% reduction in Total reportable injury frequency rate (TRIFR) and @ 10% improvement in Rail Process Safety -Total Accident Rate and Signals Passed at Danger); and, the remainder 30% weighting is for Individual responsibility performance measures.

The STI incentive performance measures for the Managing Director & CEO, set at maximum 150% FAR with a “zero incentive payment threshold level” (zero incentive until equalled), and a “Target level @ 100% of FAR”, and “Stretch Limit @ 150% of FAR.”

LTI Performance Rights Vesting Conditions

The relevant Performance Rights metrics and relevant performance hurdles are summarised below:

TSR Performance

Performance outcome	% of TSR Performance Rights to vest
Below the 50th percentile	No vesting of TSR Performance Rights will occur
At the 50th percentile	30% of the TSR Performance Rights will vest
At the 62.5th percentile	75% of the TSR Performance Rights will vest
Between the 50th and the 62.5th percentiles, and the 62.5th and the 75th percentiles	Vests pro-rata on a straight-line basis
At or above the 75th percentile of the peer group	100% of the TSR Performance Rights will vest

Return on invested capital (ROIC) Performance

Performance outcome	% of ROIC Performance Rights to vest
Average ROIC below 9.0%	No vesting of the ROIC Performance Rights will occur
Average ROIC of 9.0%	50% of the ROIC Performance Rights will vest
Average ROIC between 9.0% and 10.0%	Vests pro-rata on a straight-line basis
Average ROIC above 10.0%	100% of the ROIC Performance Rights will vest

FY2018 CEO Take Home Pay

In 2018 MD & CEO, Andrew Harding’s “Take Home Pay” Remuneration **totalled \$3,248,000** (included a depreciation in share price value of \$29,000) and comprised: \$1,700,00 (FAR); \$109,000 Non-Monetary Benefits; \$1,257,000 (current year STI award portion) and \$211,000 (previous STI award portion). No LTI award is applicable until 2019. The remuneration framework provides a maximum fixed and incentive annual award for the MD & CEO as receiving 51% in Cash and 49% in Equity.

ASA supports the Remuneration Report in its clarity and transparency providing adequate explanation and factual data for shareholders to verify the awarded amounts through their own recalculations.

¹Company overview

Aurizon Holdings is an integrated, heavy-haul, bulk freight rail operator managing and operating The Central Queensland Coal Network (CQCN). The regulated Network is the largest below-rail coal network in Australia. Transportation of Coal (212.4 million tonnes & 7% annual growth), Network haulage (229.6 million tonnes & 9% annual growth) and Bulk Resources (54.7 million tonnes & 6% annual decline), underpins the business with a 6.4% annual growth totalling 496.7 million tonnes in transportation for FY 2017/18.

The individual(s) (or their associates) involved in the preparation of this voting intention has no shareholding in this company.

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