Australian Shareholders' Association

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Seizing rail haulage opportunities throughout Regional Australia.

Company/ASX Code	Aurizon Holdings Ltd (AZJ)
AGM date	Thursday 13 October 2022
Time and location	2.00 pm AEST Townsville Entertainment & Convention Centre
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Shirley Watson assisted by Alison Harrington
Pre AGM Meeting?	Yes, with Chairman Tim Poole

Monitor Shareholding: Individuals involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for meeting

Aurizon is entering a new growth phase with its strategy to extend operations into the new commodity-rich regions of Australia. A key part of this strategy is the now ACCC approved acquisition of One Rail Australia Holdings.

In a year of considerable headwinds, the company has delivered a solid financial, operational and safety performance.

Proposed Voting Summary

No.	Resolution description	
1	Financial Statements & Reports	No vote required
2 (a)	Re-election of Non-Executive Director Ms Kate (Katherine) Vidgen	For
2 (b)	Re-election of Non-Executive Director Mr Russell Caplan	For
3	Grant of Performance Rights to the Managing Director & CEO pursuant to the Company's Long Term Incentive Plan (2022 Award)	For
4	Remuneration Report	For
5	Financial Assistance	For

Consideration of accounts and reports

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).

Governance and culture

There is a diverse skilled board with at least 30% female directors, consistent with ASA and other governance guidelines. It consists of all independent directors and one managing director.

From reports and meetings, Aurizon shows a culture of **openness and respect** for all 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 has been an inclusion and diversity policy since 2011. 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. There are 2 primary safety metrics to monitor safety outcomes across the enterprise – Rail Process Safety (RPS) and Total Recordable Injury Frequency Rate (TRIFR). The TRIFR improved 17.6% against FY21 figures. RSP, which measures operational safety, including derailments and rolling stock collisions, has improved 17.3% since the previous year.

Good management and operational progress have been achieved in the 11 years since privatisation of QR National Limited, now Aurizon, from the highly regulated, government managed Department to an ASX listed public company. Operation improvements such as predictive maintenance have led to large cost savings.

Financial performance

FY22 was a challenging but productive period for Aurizon with lower than expected above-rail and network volumes. Aurizon showed **ongoing resilience** with Underlying earnings before interest tax and depreciation (EBITDA) of $1,468 million which is in the middle of the guidance range of $1,425-$1,500 million and down 1% from FY21. Total Revenue was $3,073.3 million, up 2%. Despite lower above-rail and network volumes, the company generated a free cash flow of $664 million. Underlying (net profit after tax (NPAT) was $525 million ($533 million in FY21), while Statutory NPAT was down 15% due to one-off benefits recorded in FY21 and transaction costs for the acquisition of One Rail in FY22. Earnings per share was 28.5 cents.

A **Final Dividend** of 10.9 cents per share, 100% franked, was paid with an Interim Dividend, franked to 95%, making a full year total of **21.4 cents per share.** The dividend payout ratio was reduced to 75% to support Aurizon's commitment to maintain a strong investment grade credit rating as it completes the acquisition of One Rail Australia Holdings. Including this dividend Aurizon has returned to shareholders **$4.8 billion over the past seven years** through dividends and share buybacks.

Aurizon operates **3 key business segments** which 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. Network EBITDA declined 6% to $8.01 million in FY22 with decreased revenue of 3% and increased operating costs of 4%. Contributors to this included lower volumes, lower catch-up revenue from Wiggins Island Rail Project (WIRP) and lower Goonyella to Abbot Point expansion fees. Conditions within the regulated network help underpin revenue. Exports to South East Asia are growing.
2. In the **Coal segment** volumes decreased by 4% with reductions across NSW, South-East Queensland and CQCN. Coal revenue decreased by 3% to $1,559 million. Despite this Coal EBITDA was up 1% to $541 million. This reflects the benefits of cost management (track access costs decreased by 17%), increased CPI favourably impacting contract rates, higher revenue yield. Export volumes were impacted by adverse weather and COVID-19 related labour constraints. A new long-term haulage contract has been agreed with Pembroke Resources and a five-year extension to the haulage agreement with Baralaba Coal in the Moura Basin. Newcastle benchmark thermal coal price in FY22 increased by 216%. In July 2022, the thermal coal price was US$404/t. There is a time lag between price and volume increase needed for capital investment to occur depending on risk assessments.
3. The **Bulk segment** provides integrated supply chain services, including rail and road transportation, port services and material handling for a range of mining, metal, industrial and agricultural customers across a national footprint. Revenue increased by 9% to $691 million, from items such as commencement of CBH grain contract in WA, stronger grain volumes in Queensland and NSW, long-term haulage contract with Tronox and marginal revenue yield improvements including CPI increase. However, Bulk EBITDA decreased by 7% due to lower iron ore volumes from floods, COVID-19 disruptions, a 13% increase in operational costs (including significantly higher fuel prices) and investment in future business growth.

Over the next decade there will be a re-balancing of the above portfolio with the Bulk business to become a greater proportion of revenue and earnings compared to the coal-related business.

From questions asked of the Chairman, an impression is gained of conservative management with a concentration on improved efficiency and reduced operating costs while progressing growth and transformation initiatives. Aurizon's financials show sound Balance Sheet and Capital Budgeting metrics. The company's equity as a percentage of total assets is 45.6% and gearing (net debt/net debt + equity) was 40.9% at the end of FY22. It retains a credit rating of stable BBB+.

The forward outlook for EBITDA provided in the FY22 annual report is in the range of $1,470-$1,550 million including 11 month's revenue from One Rail Bulk and the impact of weather in July 2022.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	513	607	605	474	483
UPAT ($m)	525	533	532	473	542
Share price ($)	3.80	3.76	4.92	5.54	4.33
Dividend (cents)	21.4	28.8	27.4	23.9	27.1
Simple TSR (%)	6.75	-17.7	-9.6	28.2	-13.6
EPS (cents)	28.5	28.5	27.2	23.9	24.0
CEO total remuneration, actual ($m)	4,651	3.937	3.779	4.337	3.248

For FY2022, the CEO's total actual remuneration was **48 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2022 data from the Australian Bureau of Statistics).

Risk

The main longer-term risk to Aurizon is **climate change** and **coal and bulk haulage volume** linked to domestic coal and mining production. 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 company expects metallurgical coal demand to extend into the future. The Chairman reminded us that metallurgical coal is very important as currently there is no other method of making steel than through a blast furnace. Into the future if thermal coal production reduced to zero then the business would still be profitable from 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. An added risk now is the **delivery of transformation** programs.

The Director's Report identifies and describes the potential operational and financial risks with the possible degree of impact and the planned management response.

Key events

In July 2022, the Aurizon Group was given regulatory approval for its $2,350 million acquisition of **One Rail Australia Holdings** which it had first announced in October 2021. This acquisition has two distinct businesses:

(1) The bulk haulage and general freight assets in Northern Territory and South Australia including the 2,200km Tacoola to Darwin railway line. (The Chairman said he hopes this will lead to development of the port of Darwin).

(2) The coal haulage business in NSW and Queensland. The East Coast business will retain the 'One Rail' name and be divested under ACCC terms.

This acquisition sets up a new growth phase aligned with the company's strategy to extend into the new commodity-rich regions. It was funded by utilising existing facilities in two parts, being Aurizon Finance Pty Ltd and NHK Pty Ltd (both subsidiaries of the Company).

Key Board or senior management changes

Mr Michael Fraser, who had 35 Years in the Energy Industry, retired as a Director of the company in February 2022. As two more directors have indicated an intention to retire in the foreseeable future, some board renewal may be planned. There has been no change in senior management during the year.

ASA focus issues

This year In the Director's Report there is a Board Skills Matrix, giving the skills, experience and diversity mix on the board. During the reporting period the Board reviewed and updated the skills matrix to set out the diverse mix of skills considered optimal.

In the pre-AGM meeting with ASA, 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** and published its eighth report to 30 June 2022. Aurizon again received a 'Comprehensive' rating from the Australian Council of Superannuation Investors for corporate sustainability reporting.

Aurizon acknowledges the effects of climate change and supports the targets towards zero-net emissions by 2050. The company's **Climate Strategy and Action Plan** is on their website as are other ESG related reports. Aurizon has reduced its emissions by more than 20% in the last 10 years and expects a more than 20% reduction in the next 10 years. With changes occurring it is possible to imagine that locomotives could be electric with battery powered wagons by the end of the decade. There has been little climate change protest action during the COVID-19 period. In 2021 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 second **Modern Slavery Statement** during FY22. Aurizon commits time to ensure that robust standards and processes are in place and provides transparency on its modern slavery risks. There is considerable attention given to regional community support such as through their Community Giving Fund giving grants to 43 charities and organisation s in FY22.

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.

Re-election of directors

Item 2 (a) Re-election of Ms Kate (Katherine) Vidgen

Ms Vidgen was appointed to the Aurizon Board in 2016. After beginning in a banking career, Kate Vidgen started in the infrastructure advisory team within the Macquarie Group, where she transversed a number of sectors with a focus on infrastructure, energy and resources. She remains an Executive Director at Macquarie Asset Management. Ms Vidgen holds a number of leadership and governance committees within the Green Investment Group. Included in her positions is the appointment in 2021 to the Board on the Clean Energy Regulator. She is a Director of Bond University.

On the Aurizon Board Ms Vidgen is Chair of Remuneration and People Committee, a Member of Nomination & Succession Committee.

Ms Vidgen has indicated that, because of workload, she is likely to retire from the Board in 2023 but first committing to work through the transition process with One Rail. The Chair reports that she is a valuable director with unique qualifications in infrastructure. Although it is less than the ASA requirement, Ms Vidgen meets the minimum shareholder requirement for the company. The Chair explained that Ms Vidgen's more limited opportunities to purchase Aurizon shares in FY22 resulted from Macquarie Asset Management's conditions and timing around share purchases by its staff. Other Aurizon directors were able to purchase appropriately.

Given the information provided we will support this re-election.

Item 2 (b) Re-election of Mr Russell Caplan

Mr Caplan joined the board in 2010 with extensive international experience in the oil and gas industry. He has held senior position in upstream and downstream operations and international postings in the UK, Europe and the USA. Past positions include Chairman of the Shell Group of Companies in Australia, Chairman of the Australian Institute of Petroleum and Orica Limited and a Non-Executive Director of Woodside Petroleum Limited.

Mr Caplan is a Member of Remuneration and People Committee and a Member of Audit, Governance & Risk Management Committee. He holds company shares of 150% of one year's Total Directors fees consistent with ASA policy.

Mr Caplan is unlikely to serve a full three-year term but is recommended by the Board for retention of necessary skills while Board renewal is undertaken. ASA would normally not support this re-election beyond 12 years but from the discussion on existing skill needs, it will not be opposed.

Item 3 Grant of Performance Rights to the Managing Director& CEO.

The meeting is seeking approval to award Mr Andrew Harding 694,087 Performance Rights to shares in Aurizon pursuant to the remuneration LTI plan. Rights equate in value to $2,700,000 being 150% of his fixed annual remuneration for FY23. The number of rights are calculated by dividing $2,700,000 by the volume weighted average price of shares for the five days ($3.89) leading up to 12 August 2022. 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 140% 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 Remuneration Report

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.

Key Management Personnel (KMPs) are remunerated with a combination of Fixed Pay, Short Term Incentives (STI) and Long-Term Incentives (LTI). STI is earned over a one-year time frame. LTI is earned over a four-year period and is performance rights are granted at face value and as equity.

The LTI component of remuneration has now has three financial performance hurdles – TSR (25%), Strategic Transformation (25%) and Return on Invested Capital (50%). The ROIC reflects that Aurizon is a capital-intensive business. Overall, the Remuneration Report conforms will ASA guidelines and we will vote undirected proxies in support of it.

Item 5 Approval of Financial Assistance

The Acquisition of One Rail Australia was financed by utilising existing facilities being (1) Aurizon Finance Pty Ltd (a subsidy of the Company) which borrowed $1,450 million of bank debt and (2) NHK Pty Ltd (also a subsidiary) which holds the East Coast Business and is to be divested and borrowed $500 million of bank debt. Due to the arrangements, those subsidies, which were acquired as part of the acquisition, may be taken to have financially assisted in the acquisition of their own shares or those of the holding company. This is permitted by the Corporations Act where it does not materially prejudice the interests of the company or its shareholders, the ability to pay its creditors or where shareholders approve the assistance. This arrangement is standard market practice, and they require security and/or guarantee for their obligations and gives access to funding on more favourable terms.

The directors consider that the provision of financial assistance is in the best interests of the company and its shareholders. Also, it is a requirement of the financiers that the Financial Assistance Resolution is obtained.

ASA will support the Resolution.

Remuneration framework detail

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

CEO rem. Framework for FY22	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.8	28.57%	1.8	24%
STI - Cash	1.08	17.14%	2.29	23%
STI - Equity	.72	11.42%	1.08	15%
LTI	2.7	42.87%	2.7	38%
Total	6.3	100.0%	7.87	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. The LTI hurdles are revised to a 25% weighting to Relative TSR against a peer group within the ASX100 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%. The change to a 25% strategic transformation measure is to reflect the growing Bulk business and other non-coal investments. Performance is measured over a four-year period.

This year the CEO achieved 80% of maximum STIA and other executives averaged 73% of maximum.

The CEO has sufficient 'skin in the game' with 375% of Fixed Remuneration.

The actual remuneration for the CEO and four Executives is disclosed in the Remuneration Report.

There has been no increase in the base fee of $490,000 for the Chairman and $170,000 for Non-Executive Directors in FY22. The aggregate fees approved by shareholders is $2.5 million.

AS mentioned above, the ASA will vote to support the Remuneration Report.