



## Governance and legal issues inhibit New Hope

<b>Company/ASX Code</b>	New Hope Corporation Limited/NHC
<b>AGM date</b>	Tuesday 19 November 2019
<b>Time and location</b>	12 noon at the Ipswich Civic Centre, Ipswich, Qld
<b>Registry</b>	Computershare
<b>Webcast</b>	No
<b>Poll or show of hands</b>	Poll on all items or at Chair's discretion if the result is obvious
<b>Monitor</b>	John Collins assisted by Alison Harrington
<b>Pre AGM Meeting?</b>	Telephone conference with Chair Robert Millner

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA Position

The Annual Report (Report) is well presented, straight forward and instructive.

From a production and financial point of view, NHC had a very good year though as in the past, the coal operations carried the company with petroleum and agricultural operations contributing insignificantly. Coal production was up 21% from the previous financial year (FY18) with Bengalla being the most significant contributor. New Acland struggled to meet last year's production figures and the West Moreton operations are now in closure mode. Costs appeared to be held and there were no impairments which lead to a Profit Before Tax of nearly \$308m (\$267m in FY18). This allowed a dividend distribution of \$133m (\$99m for FY18) for the year. This is a payout of 63% of the net profit after tax (NPAT). The generous dividend and payout should have, on usual philosophy, resulted in a share price being maintained at 2018 levels. Therefore, the year's end share price of \$2.51/share (\$3.19 on 31 July 2018) was a surprise. This led to a negative total shareholder return (TSR).

NHC has had a busy year in the courts with New Acland stage 3 (NAS3) and Colton. NHC has had considerable successes towards gaining approval for NAS3 but the matter remains unresolved. It is likely that some 150 persons will be made redundant if the matter is not settled by Christmas 2019 when Stage 2 operations run out of coal. The Colton matter is a dispute between Northern Energy and Colton Coal (both now in receiver ship) and the Wiggins Island Terminal over debts incurred during the Colton exploration/feasibility years. NHC has estimated its potential exposure to be some \$16m compared to Wiggins' initial claim of some \$155m. The matter is not yet finalised.

NHC appears to have developed a very good operating culture by way of well-managed operations, on-going training for employees and well directed support for the community. Particularly pleasing is the export of Acland rehabilitation knowledge to Bengalla. NHC would appear to be one of leaders in this field.

NHC has this year produced a systematic and convincing risk assessment framework. Noticeable from the usual risks associated with operations is a section on climate change. The work would appear to cover most if not all the likely risk scenarios. The future development of the framework may well serve as a reason for investor support for the business particularly, if one of the opportunities turns out to be a new product that is developed from the mining of coal, petroleum or agriculture.

The NHC Board exhibits several characteristics at odds with ASA guidelines: It has only two Independent Non-Executive Directors (NEDs) in a Board of 7 persons (one more NED was independently appointed but having served 13 years on the Board is no longer considered independent by ASA). ASA recommends a bare minimum of four independent NEDs to run a sustainable board (of 7 directors) and company. The Board Chair is not an Independent NED and ASA guidelines are clear that the chair being independent is preferable. ASA believes the directors should have significant shareholdings to demonstrate their alignment with shareholders, at least to the tune of one years' salary after having served a full term on the board but only three directors meet this criterion. While NHC includes a CV of each director in the Annual Report, documenting their experience, it does not discuss specific skills brought to the Board and how they could apply to the future development of the company. There is only one woman on the Board, and ASA prefers a board be comprised of a minimum of 30% female and 30% male directors. With NHC's current representation, women only comprise 14% of the board's composition and ASA would prefer to see a rise in the female representation on the Company's board.

### Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	210.7	149.5	140.6	-53.7	-21.8
UPAT (\$m)	NA	NA	128.7	5	51.7
Share price (\$)	2.51	3.19	1.60	1.60	1.91
Dividend (cents)	16	12	6	8	9.6
TSR (%)	-16%	107%	4%	-12%	-33%
EPS (cents)	25.3	18	16.9	-6.5	-2.6
CEO total remuneration, actual (\$m)	2.2	1.9	1.4	1.3	1.3

For 2019, the CEO's total actual remuneration was **25 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

<b>Item 2</b>	<b>Adoption of Remuneration Report – Resolution 1</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.500	62.5%	1.500	57.4%
STI – Cash	0.45	18.75%	0.555	21.3%
STI – Equity	0	0%	0	0%
LTI	0.45	18.75%	0.555	21.3%
Total	2.4	100%	2.610	100%

The Remuneration Report is well set out although, in some instances, the linkages in the detail make it difficult to follow. NHC is to be congratulated for including a table showing the ‘take home’ pay where shares vested in the year are valued at market price.

The payment to directors is well set out and the payment levels seem reasonable. In some instances however, the definition of the contents of the Total Fixed Remuneration (TFR) does not appear to be consistent.

NHC uses a Short-Term Incentive scheme for Key Management Personnel (KMP). It is an annual cash bonus with a maximum stretch of 37% of the KMP’s TFR. KMPs performance is tested at the end of each year against targets for Group: Sales; Profit; Costs and Individual performance with weightings of 50%, 30%, 10% and 10% respectively. The rating of performance can be between 0 to 100%. The bonus is paid at year’s end with no holding condition. The Remuneration Report clearly tables the final performance outcome for each KMP but, does not show the performance for each of the tested targets. However, the process seems to be working well yielding a bonus averaging around 66% of the respective TFRs.

NHC uses a Long-Term Incentive scheme for KMPs. It consists of a Rights grant that is tested at the end of a three-year performance period. Rights are granted using 5-day volume weighted average price (VWAP) at 31 July for the current year (2018/19). Rights are tested against two conditions; relative TSR against the S&P/ASX 200 Net Total Return (XNT) and Individual personal performance cards with weighting of 75% and 25% respectively. There is a four-year service condition ending one year after vesting before the shares vested are available. The outcome appears to be working satisfactory and NHC enclose a Total Remuneration Package table similar to that suggested by ASA which clearly demonstrates the payments are reasonable and in line with their Target Remuneration. NHC has provided new graphs showing these outcomes. The process could be improved if the Remuneration Package table had footnotes on showing how the value of LTI’s Vested at Market was achieved.

ASA supports the Remuneration Report.

<b>Item 3</b>	<b>Re-election of Mr Ian Williams as a Director – Resolution 2</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr Williams joined the Board on 1 November 2012. He has a Bachelor of Economics and Laws. He has provided Legal and Economic advice internationally. This advice includes every aspect of the Australian coal industry.

Mr Williams appears to be well qualified for the NHC Board. ASA will support Mr Williams re-election.

<b>Item 4</b>	<b>Re-election of Mr Thomas Millner as a Director – Resolution 3</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr T Millner joined the Board on 16 December 2015. He has Bachelor of Design (Industrial), Graduate Diploma of Applied Finance and is a Graduate of AICD. He currently manages Contact Asset Management and is a NED for Washington H Soul Pattinson. He was formally CEO of BKI Investment Company. His prior experience was 17 years in the investment markets.

Mr Millner appears to be well qualified for the NHC Board. ASA will support Mr Millner's re-election.

<b>Item 5</b>	<b>Approval of LTI grant to CEO/Managing Director Shane Stephan – Resolution 4</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Approval is sought from the NHC shareholders to approve granting of Long-Term Incentive (LTI) rights over two of three-year performance periods: 2019 to 2021 and 2020 to 2022. These will vest 1 August 2022 and 1 August 2023 respectively. These grants are also subject to four years of service hold. The reason for the two grants is to get the grant date back to the start of the performance period following a change to the system.

The number of rights granted is calculated from dividing 37% of the current TFR by the 5 day VWAP price at 31 July 2019 of \$2.5436 per share. This is in line with discussion in the 2018-19 Remuneration Report and yields 217,767 rights in each case.

At the end of the performance periods, the Mr Stephan's performance will be tested against the hurdles of Shareholder Value and Strategic Plan Delivery with weightings of 75% and 25% respectively. The one-year service condition remaining delays vested shares being received on vesting date.

Also at this time, the Mr Stephan will also be granted 157,483 rights for the performance period 2018 to 2020 as approved by shareholders in the 2018 AGM. Vesting will take place 1 August 2021. The rights that vested will granted on vesting as the service period is three years, not four as in the new system.

ASA finds these proposals reasonable and in-line with the various systems discussed in the REM Report and will support the proposal.

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

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