

Keep on rail freighting on, with better days ahead

Company/ASX Code	Aurizon Holdings Ltd / AZJ
AGM time and date	Thursday 2 pm, 12 October 2023
Location	Karstens Brisbane, L24/215 Adelaide St, Brisbane
Registry	Computershare
Type of meeting	Online or in person - Hybrid
Monitor	David Loosemore
Pre-AGM Meeting	Yes, with Chairman Tim Poole

Monitor Shareholding: The individual involved in the preparation of this voting intention has a beneficial shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2	a) Re-election of Non-Executive Director Dr Sarah Ryan b) Re-election of Non-Executive Director Mr Lyell Strambi c) Election of Non-Executive Director Mr Timothy Longstaff d) Election of Non-Executive Director Ms Samantha Tough	For For For For
3	Approval of a Grant of Performance Rights to the MD&CEO Mr Andrew Harding	For
4	Approval of Potential Termination Benefits	For
5	Adoption of Remuneration Report	For

2. Summary of Issues and Voting Intentions for AGM/EGM

- Aurizon Holdings Limited (Aurizon)'s earnings dropped in a tough year due to wet weather and increased depreciation and interest expense. It expects a better performance next year and beyond, on increased volumes and higher allowed returns from its regulated rail track network.
- The re-election and election of Directors are supported, as they possess the necessary skills and are not overcommitted to directorships in other companies.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

Accounts and reports

Aurizon is a vertically integrated heavy-haul bulk rail freight operator transporting Australian commodities. It plays a critical role in connecting miners, primary producers and industry with

international and domestic markets. It has an extensive fleet of locomotives and rolling stock supporting its heavy haul rail infrastructure.

Aurizon's operations have three key business segments, each significantly contributing to its overall performance:

1. Central Queensland Coal Network (Network) is a regulated monopoly, the largest open access coal rail network in Australia. The regulated nature of this network creates a barrier to entry, ensuring strong and stable cash flows and earnings certainty to Aurizon, but with oversight by the regulator. Network Earnings before interest, tax, depreciation and amortisation (EBITDA) was up \$12m (1%). The favourable conditions within this regulated segment serve as a foundation for future revenue growth, especially in light of growing coal exports to South East Asia.

2. In the Coal segment, EBITDA decreased by \$86 million (16%) primarily due to lower volumes caused by prolonged wet weather conditions. Additionally, higher Network Take-or-Pay expenses, which are non-pass-through costs, and rising expenses due to wage and materials escalation contributed to the decline in EBITDA.

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. Bulk EBITDA was up \$79m (59%) with the inclusion of the One Rail Australia bulk business (Bulk Central) following completion of the transaction in July 2022, higher grain and iron ore volumes in Western Australia, partly offset by wet weather, a number of derailments and customer specific production issues in Queensland, New South Wales and the Northern Territory.

Looking ahead, Aurizon aims to re-balance its portfolio over the next decade. The company intends for its Bulk business to become a more significant proportion of its revenue and earnings compared to its coal-related business. This strategic shift aligns with evolving market dynamics and social and economic considerations, to position Aurizon for long-term success in the freight and logistics industry.

Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	324	513	607	605	474
UPAT (\$m)	367	525	533	532	473
Share price (\$)	3.92	3.80	3.76	4.92	5.54
Dividend (cents)	15.0	21.4	28.8	27.4	23.9
Simple TSR (%)	6.9	6.75	-17.7	-9.6	28.2
EPS (cents)	19.9	28.5	28.5	27.2	23.9
CEO total remuneration, actual (\$m)	3.748	4.651	3.937	3.779	4.337

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Governance and culture

From reports and meetings, Aurizon shows a culture of openness and respect for all its stakeholders. 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. There has been an inclusion and diversity policy since 2011.

There is a diverse skilled Board more than 30% female Directors during the year. On 13 September 2023, the retirement of Sam Lewis was announced, reducing female representation on the Board to 2 out of 9 effective 12 October, following the AGM. Russell Caplan is expected to retire in 2024, providing an opportunity to appoint a female Director.

The Board consists of independent Directors and one Managing Director. One Director, Russell Caplan, has been with the company for more than 12 years and there is a majority of independent Directors.

Aurizon has a continuous commitment to safety of employees, customers and the communities in which the company operates. There is a range of protective measures, aligned with expert health and government advice. There are two primary safety metrics to monitor safety outcomes across the enterprise - Total Recordable Injury Frequency Rate (TRIFR) and potential and actual Serious Injury and Fatality Frequency Rate (SIFR). These metrics had been showing improvement until a singular incident occurred in June 2023 (involving the newly acquired Bulk operations). In this unfortunate event, a heavy vehicle pulled into the path of an Aurizon train at a protected level crossing outside of Katherine, in the Northern Territory resulting in injuries to all four traincrew.

Key events

In July 2022, the Aurizon Group was given regulatory approval for its \$2,350 million acquisition of One Rail Australia Holdings. This acquisition sets up a new growth phase aligned with the company's strategy to extend into the new commodity-rich regions. The acquisition of One Rail Australia was funded from cash, existing bank debt facilities and new bank debt facilities.

The bulk haulage and general freight assets in Northern Territory and South Australia including the 2,200km Tacoola to Darwin railway line have been retained. One Rail Bulk has been integrated into the Group's Bulk segment and renamed Aurizon Bulk Central.

The One Rail coal haulage business in NSW and Queensland were divested under ACCC terms on 17 February 2023 for consideration of \$438 million.

The Group increased its ownership interest in Ox Mountain Limited (UK registered) from 42% to 69% on 9 January 2023 for consideration of \$30 million. Ox Mountain Limited is a maintenance software developer and distributor focusing on asset intensive sectors such as mining and rail operations/infrastructure and has customers and operations in Australia and globally.

Regulated earnings from Network are anticipated to rise next year reflecting mainly the increase in interest rates. Revenue and EBITDA growth will be driven by a \$125m increase in the Network Maximum Allowable Revenue.

Key board or senior management changes

Timothy Longstaff and Samantha Tough were appointed as Directors since the previous AGM and offer themselves for election. Sam Lewis will retire from the Board following the AGM on 12 October and Russell Caplan is expected to retire from the Board in 2024.

Sustainability/ESG

Currently, over 80% of EBIT is exposed to domestic coal production, a major risk if demand falls or if production is disrupted or subject to new Government policy oversight and taxation. This poses a substantial risk in the event of a drop in demand (not currently forecast), production disruptions, or the introduction of new Government policies related to oversight and taxation.

Aurizon is working on targets to achieve zero-net operational emissions (Scope 1 and 2) by 2050. The company has detailed its Climate Strategy and Action Plan on its website, alongside other reports pertaining to ESG matters, including its comprehensive Annual Sustainability Report.

In a significant step towards sustainability, in May 2023, at the Redbank facility in Queensland, Aurizon initiated work on a prototype for a freight locomotive with zero emissions capability, a first for Australia. Aurizon's diesel locomotive fleet is responsible for the majority of its greenhouse gas emissions.

ASA focus issues (not discussed above or under remuneration report or re-election of directors)

Aurizon's auditor Deloitte was appointed to replace PWC only around three years ago following a procurement process and provides minor advisory and assurance services.

4. Rationale for Voting Intentions

Resolution 2 a) Re-election of Non-Executive Director Sarah Ryan (for)

Sarah Ryan has been a Director since December 2019. She has more than 30 years of international experience in the oil and gas industry.

Sarah is currently a Non-Executive Director of ASX listed entities Viva Energy Group Limited and Transurban Group and a Non-Executive Director of Future Battery Industry Cooperative Research Centre. She is a Fellow of the Australian Academy of Technology and Engineering.

We will support the re-election.

Resolution 2 b) Re-election of Non-Executive Director Lyell Strambi (for)

Lyell Strambi has been a Director since December 2019. Lyell has experience in the aviation sector both in Australia and abroad, spanning 40 years.

In June 2020, Lyell concluded his tenure as CEO and Managing Director of Australia Pacific Airports Corporation (APAC). Having been appointed in September 2015, during his time at APAC he was responsible for the operation and development of both the Melbourne and Launceston airports and for overseeing a direct workforce of 300 staff and assets valued in excess of \$10 billion.

Lyell is a Graduate and Fellow of the Australian Institute of Company Directors and a Member of the Australian Institute of Management. As a Director, Lyell has held positions with APAC, StarTrack Express, Traveland and Southern Cross Distribution Systems and was President of the Royal Flying Doctors SE.

He has served with the company since 2019, and more recently has been providing relevant experience to the Board while it has had some new appointments. There will be an opportunity to increase the number of female Directors in 2024 with the retirement of Russell Caplin Re-election supported.

Resolution 2 c) Election of Non-Executive Director Mr Timothy Longstaff (for)

Timothy Longstaff was appointed as a Director on 1 June 2023.

Tim's over 35-year professional career brings a depth of experience in finance, accounting, strategy, acquisitions and divestments, debt and equity capital markets, risk management, and investor engagement amongst asset-intensive industrial companies. Through this experience he brings global geo-political perspectives and insights into transport and infrastructure policies, the workings of Government, and regulated assets.

Tim is a Non-Executive Director of the ASX-listed Ingham's Group Limited and Perenti Limited, and also of Snowy Hydro Limited and The George Institute for Global Health. He is a member of the Takeovers Panel. Election supported.

Resolution 2 d) Election of Non-Executive Director Samantha Tough (for)

Samantha Tough was appointed as a Director on 1 September 2023.

Samantha has had a distinguished executive and non-executive career with experience in many industry sectors including energy, resources, agriculture, oil and gas, technology, water and engineering.

Samantha has undertaken an executive role as Pro Vice Chancellor of Industry and Commercial at the University of Western Australia and a board portfolio of Chair Horizon Power, Clean Energy Finance Corporation and Rumin8 Pty Ltd.

Samantha has experience in the regions of Western Australia and Australia generally, and has served on over 20 boards of listed, private and government entities. She completed a Bachelor of Laws and Bachelor of Jurisprudence at UWA and moved to the commercial sector early in her career. She has Fellow status with the Australian Institute of Company Directors. Election supported.

Resolution 3 Approval of a Grant of Performance Rights to the MD&CEO Andrew Harding (for)

The meeting is seeking approval to award the allocation of 750,409 Performance Rights to CEO Andrew Harding in the form of shares in Aurizon, in accordance with the remuneration Long-Term Incentive (LTI) plan. These Rights hold an equivalent value of \$2,754,000, which is set at 150% of his fixed annual remuneration for FY24. The rights are calculated by dividing \$2,754,000 by the volume-weighted average price of shares over the five days leading up to 18 August 2023, which is \$3.67 per share.

These Performance Rights are scheduled to vest four years from now, contingent upon meeting specified performance criteria and fulfilling employment conditions. Until vesting occurs, these Performance Rights do not entitle the holder to receive any dividends.

Andrew Harding currently holds company shares valued at approximately four times his fixed remuneration. In the Annual Report, Aurizon provides shareholders with both a comprehensive and detailed explanation of the vesting process for these performance rights, including the proportion that will vest at various levels of performance. The awarding of these performance rights aligns with ASA policy. Supported.

Resolution 4 Approval of Potential Termination Benefits (for)

The approval of LTI for termination benefits purposes looks acceptable, especially with a four-year term. The incentives can be kept on foot after departure, and or vest on a pro-rata basis at termination – but only for departures on good terms. Supported.

Resolution 5 Adoption of Remuneration Report (for)

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. For the remuneration framework to perfectly align with ASA guidelines, the deferral for the short-term incentive would be 50% not 40%. Supported.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY23	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.8	29%	1.8	24%
STI - Cash	1.08	17%	2.29	23%
STI - Equity	0.72	11%	1.08	15%
LTI	2.7	43%	2.7	38%
Total	6.3	100.0%	7.87	100%

The CEO's fixed remuneration is expected to increase by 2.9% in FY2024. The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration framework set a maximum opportunity amount, but not all.