

Rebound missed some expectations

Company/ASX Code	Aurizon Holdings Ltd/AZJ
AGM time and date	Thursday 2pm, AEST Thursday, 10 October 2024
Location	Karstens Brisbane, Rooms 2407-2409, L24/215 Adelaide St, Brisbane and online
Registry	Computershare
Type of meeting	Hybrid
Monitor	David Loosemore assisted by Meredith Clarke
Pre-AGM Meeting	Yes, with Chairman Tim Poole

Monitor Shareholding: the individuals involved in the preparation of this voting intention have a shareholding or beneficial ownership in this company.

1. How we intend to vote

No.	Resolution description	
1	Financial Statements & Reports	No vote required
2	Adoption of Remuneration Report	For
3	a) Re-election of Mr Tim Poole as Director b) Re-election of Mr Marcelo Bastos as Director	For For
4	Approval of a Grant of Performance Rights to the MD&CEO Mr Andrew Harding	For

2. Summary of Issues and Voting Intentions for AGM

- Aurizon Holdings Ltd (AZJ)'s coal revenues rebounded in FY24, but revenues from newer operations in other minerals and containerised freight have been below break-even levels and appear slow to ramp up, not yet meeting AZJ's return targets.
- Female representation on the Board does not meet ASA guidelines of 40%. On 12 October 2023, Sam Lewis retired from the Board, reducing female representation on the Board to 2 out of 8 directors. Russell Caplan may retire in 2025, and Chairman Tim Poole has also indicated he wishes to retire at the end of 2025. The Chair expects this renewal process will provide the opportunity to appoint a female Director, and ASA expects the board to enhance its gender balance as well as additional technology and sustainability skills and experience.

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

3. Matters Considered

Accounts and reports

AZJ, Australia's largest rail freight operator, reports performance through four segments:

1. Central Queensland Coal Network: A regulated monopoly providing stable cash flows and over half of AZJ's earnings. EBITDA was up 14% in FY24, driven by higher regulated revenue and a volume over-recovery.
2. Coal: In FY24, EBITDA up 16% driven by increased volumes and yield.
3. Bulk: EBITDA up 7% in FY24, boosted by minerals and iron ore volumes, offset by lower grain volumes, weather impacts, and the end of a rail maintenance contract.
4. Other: FY24 EBITDA down 17% as containerised freight ramps up slowly.

Strategic Direction

AZJ is actively rebalancing its portfolio to increase the revenue share of Bulk and Other segments relative to coal-related business. This strategic shift aims to position the company for long-term success in response to evolving market dynamics and socio-economic factors.

Challenges and Opportunities

While the company's strategic diversification is progressing, it's important to note that the new segments are currently performing below management's investment return targets. AZJ remains committed to improving the performance of these segments to meet its long-term objectives.

Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	406	324	513	607	605
UPAT (\$m)	406	367	525	533	532
Share price (\$)	3.65	3.92	3.80	3.76	4.92
Dividend (cents)	17.0	15.0	28.8	28.8	27.4
Simple TSR (%)	-2.6	6.9	6.75	-17.7	-9.6
EPS (cents)	22.1	19.9	28.5	28.5	27.2
CEO total remuneration, actual (\$m)	3.216	3.748	4.651	3.937	3.779

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, AZJ shows a culture of openness and respect for all its stakeholders.

The Board skills matrix (page 7 of the Annual Report) has limitations:

1. It does not identify individual directors.
2. The coloured bars do not indicate how many directors have strengths each category
3. The matrix therefore provides limited information on how specific directors up for election contribute to the Board's overall skillset.

ASA believes this approach offers limited value to shareholders in objectively assessing individual directors' skills and experience. For a more comprehensive evaluation, shareholders are advised to refer to:

1. Director summaries in the Annual Report.
2. Information provided in the Notice of Meeting for the directors that are subject to election.

These sources offer more detailed and useful insights into each director's qualifications and potential contributions to the Board, that could have been provided in the skills matrix.

Key board or senior management changes

None in FY24, but Chairman Tim Poole has indicated he will retire from the Board in 2025.

Sustainability/ESG

Current Exposure

AZJ's business model currently has significant exposure to domestic coal production, with over 80% of EBIT derived from this sector. This concentration presents potential risks:

- Possibility of unexpected decline in coal demand
- Production disruptions
- New government policies on oversight or taxation

Climate Strategy

AZJ has committed to achieving net-zero operational emissions (Scope 1 and 2) by 2050. To support this goal, the company has developed and published its Climate Strategy and Action Plan.

ESG Reporting

AZJ demonstrates its commitment to transparency and sustainability through:

- Comprehensive Annual Sustainability Reports
- Regular updates on ESG initiatives
- Publicly available climate and environmental strategies

These efforts showcase AZJ's proactive approach to addressing environmental concerns and adapting to changing market dynamics.

Cyber and Data Risk.

Whilst not specifically mentioned in either the Chairman's or the CEO's report, AZJ has identified the possibility of cyber risk and data risk and in turn, the potential risks for the enterprise. Details of the identified potential risks and Aurizon's approach to these are provided in the Risk Table, on page 20 of the Annual Report - "Cyber Security and Technology Reliance".

Whilst there is no director specifically adding cyber skills to the collective skills of the board, the Board and the management team are acutely aware of the potential issues and have spent considerable time running simulations and scenarios and improving functions. More importantly, management is aware of where the organisation is protected and where they are vulnerable.

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

Director Samantha Tough, who commenced on 1 September 2023 does not appear to have any shareholding in the company (p38 Annual Report). ASA's guidelines are included that directors have invested at least one year's worth of base cash fees in company shares, within three years (for Non-Executive Directors (NEDs)) to demonstrate alignment with shareholders.

4. Rationale for Voting Intentions

Resolution 2 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.

Resolution 3 a) Re-election of NED Mr Tim Poole (For)

Tim Poole has been a director since 1 July 2015, and was elected Chairman, by the Board, on 1 September 2015. He has been an executive at Price Waterhouse and Hastings Funds Management and NED of a range of private and public companies in infrastructure, transport, property, financial services and mining. He currently also Chairman of Reece Ltd. He has a Bachelor of Commerce from the University of Melbourne. He has advised that his current intention is to retire from the Board at the end of 2025 (just over one year).

We will support the re-election on the basis that transition to a new Chairman can be arranged over the coming year.

Resolution 3 b) Re-election of Mr Marcelo Bastos (For)

Marcelo Bastos has been a director since November 2017. He has experience in the mining industry, in project development, operations, and logistics. He has held executive positions in BHP Billiton and MMG. Mr Bastos is currently a NED of Anglo-American PLC, a NED of IGO Ltd and is a Technical Review Board Member of Sumitomo Corporation.

He holds a Bachelor (Honours) in Mechanical Engineering, MBA and MAICD. Supported.

Resolution 4 Approval of a Grant of Performance Rights to the MD & CEO Mr Andrew Harding (For)

The meeting is seeking approval to award the allocation of 822,090 Performance Rights to CEO Andrew Harding in the form of shares in AZJ, 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 FY25. The rights are calculated by dividing \$2,754,000 by the volume-weighted average price of shares over the five days leading up to 16 August 2024, which is \$3.35 per share.

These Performance Rights are scheduled to vest four years from now, contingent upon meeting specified performance criteria on relative TSR, Non-coal EBITA growth, ROIC 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, AZJ 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.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.

Appendix 1

Remuneration framework detail

CEO rem. Framework for FY25	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.836	29%	1.836	24%
STI - Cash	1.102	17%	1.652	23%
STI - Equity	0.734	11%	1.102	15%
LTI	2.754	43%	2.754	38%
Total	6.426	100%	7.344	100%

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.