



# Proposed Remuneration Changes

John B Prescott AC – Chairman

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June 2014

# Important notice

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# Summary

- After receiving a “first strike” at the 2013 AGM, the Board sought detailed feedback from investors and proxy advisors regarding the major issues and concerns
- This feedback, combined with advice from independent experts, helped inform a number of changes proposed to the remuneration structure
- These changes were agreed at a recent Board meeting and further engagement with investors and proxy advisors is occurring ahead of the 2014 AGM

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# Key changes proposed for FY2015

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<b>Total Fixed Remuneration (TFR)</b>	<ul style="list-style-type: none"> <li>▪ Key Management Personnel (KMP) fixed remuneration is frozen for second consecutive year</li> <li>▪ CEO has received only one pay increase since IPO</li> <li>▪ Limited increases for other executives (those who have been promoted, those with changed duties and those whose remuneration level is clearly anomalous)</li> </ul>
<b>Short Term Incentives (STI)</b>	<ul style="list-style-type: none"> <li>▪ Structure retained – 70% for enterprise measures, 30% for individual targets</li> <li>▪ ROIC removed from enterprise measures</li> <li>▪ Enterprise measures – underlying EBIT (50%), Safety (25%) and Transformation (25%)</li> </ul>
<b>Long Term Incentives (LTI)</b>	<ul style="list-style-type: none"> <li>▪ EPS growth removed from LTI measures given consistent feedback from investors about appropriateness of the measure or growth rate hurdles</li> <li>▪ ROIC now included in LTI given long term, capital intensive nature of Aurizon’s business</li> <li>▪ Weightings of LTI measures to be 34% Operating Ratio, 33% Relative TSR and 33% ROIC</li> <li>▪ Relative TSR performance – only 30% of that component of the LTI will vest for median performance (previously 50%)</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>▪ In future KMP will be reported only as required by the Corporations Act i.e. CEO, CFO, EVP Network, EVP Operations, EVP Commercial &amp; Marketing. For FY2014 only, all CEO direct reports will be reported to facilitate comparison with FY2013</li> <li>▪ More stringent approach to target setting, especially threshold targets for both STI and LTI</li> <li>▪ Re-testing for operating ratio remains in place, but once only and at a more difficult hurdle</li> </ul>

# Key changes for FY2014 retained

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<b>Short Term Incentive Award (STIA)</b>	<b>STIA deferral &amp; Claw-back</b>	<ul style="list-style-type: none"> <li>▪ A portion of any short-term incentive will be awarded as rights to shares and deferred for one year (FY14: 20% &amp; FY15 and beyond 40%)</li> <li>▪ Aligns short-term rewards with medium-term shareholder wealth</li> <li>▪ Enables the Board to have the ability to ‘claw-back’ the deferred portion of the STIA in the event of a material financial misstatement</li> </ul>
<b>STIA &amp; LTIA</b>	<b>No adjustment to performance targets</b>	<ul style="list-style-type: none"> <li>▪ Continue the policy previously advised that the Board will not, in general, adjust performance targets for remuneration plans, although discretion is retained in exceptional circumstances</li> </ul>
<b>FY2014 impairment</b>	<b>Treated as a cost for underlying EBIT</b>	<ul style="list-style-type: none"> <li>▪ As previously advised, \$197m asset impairment from 1H FY2014 will be treated as a cost for underlying EBIT and will therefore impact EBIT and ROIC (STI measures) and EPS growth (LTI measure) in FY2014</li> </ul>

# FY2015 remuneration components: STIA

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<b>Fixed</b>	<b>What is fixed remuneration</b>	<ul style="list-style-type: none"> <li>Market Based</li> </ul>
	<b>What is the STIA</b>	<ul style="list-style-type: none"> <li>Performance based</li> </ul>
<b>Short-Term Incentive Awards</b>	<b>Participation levels</b>	<ul style="list-style-type: none"> <li>MD &amp; CEO (Target 100% of TFR – Stretch 150% of TFR)</li> <li>KMP (Target 75% of TFR – Stretch 112.5% of TFR)</li> </ul>
	<b>Performance Conditions &amp; Hurdles</b> <i>Performance hurdles against each performance condition are established at the beginning of each performance period</i> <i>Within STIA the hurdles are Threshold, Target and Stretch performance</i>	Enterprise targets weighting <sup>1</sup> (70% of STI):
		<b>EBIT</b> (50% - previously 40%)
		<b>Safety</b> (25% - previously 20%)
		<b>Transformation</b> (25% - previously 30%)
Individual targets (30% of STI) change each year and cascade as appropriate. Specific targets are divided into four categories for the MD & CEO:	<ol style="list-style-type: none"> <li>1. Organisation and team leadership</li> <li>2. Marketing and growth initiatives</li> <li>3. Capital management</li> <li>4. Stakeholder relations</li> </ol>	



1. FY2014 STIA included ROIC with a 10% weighting.

# FY2015 remuneration components: LTIA

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Long-Term Incentive Awards (LTIA)

<b>What is the LTIA</b>	A performance rights plan with 3 years performance period	
<b>Participation levels</b> (maximum earning opportunity for stretch performance)	<ul style="list-style-type: none"> <li>▪ LTIA is available for MD &amp; CEO, KMP, their direct reports &amp; a small number of other management employees</li> <li>▪ MD &amp; CEO – 100% of fixed remuneration</li> <li>▪ KMP – 75% of fixed remuneration</li> <li>▪ Other employees – 30-60% of fixed remuneration (depending on the size of the role)</li> </ul>	
<b>Performance Conditions &amp; Hurdles</b> (as at 30 June 2017)	<b>Operating Ratio (34%)</b>	<ul style="list-style-type: none"> <li>– Targets yet to be set by the Board and will be notified in the final Remuneration Report (FY2016 is 73%)                             <ul style="list-style-type: none"> <li>▪ Proportion of award decreased to 34% (from 50%)</li> </ul> </li> </ul>
	<b>ROIC (33%)</b>	<ul style="list-style-type: none"> <li>– Targets yet to be set by the Board and will be notified in the final Remuneration Report                             <ul style="list-style-type: none"> <li>▪ Proportion of award 33% (new measure)</li> </ul> </li> </ul>
	<b>Relative TSR (33%)</b>	<ul style="list-style-type: none"> <li>– 100% of rights will vest if the Aurizon is between the 75<sup>th</sup> and 100<sup>th</sup> percentile of its peer group<sup>1</sup> <ul style="list-style-type: none"> <li>▪ Proportion of award increased to 33% (from 25%)</li> <li>▪ Only 30% vesting at median performance (previously 50%)</li> </ul> </li> </ul>



1. The peer group is the ASX100 excluding Financial, Medical, Telecommunications, Pharmaceutical, Gaming and Property Trusts.





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