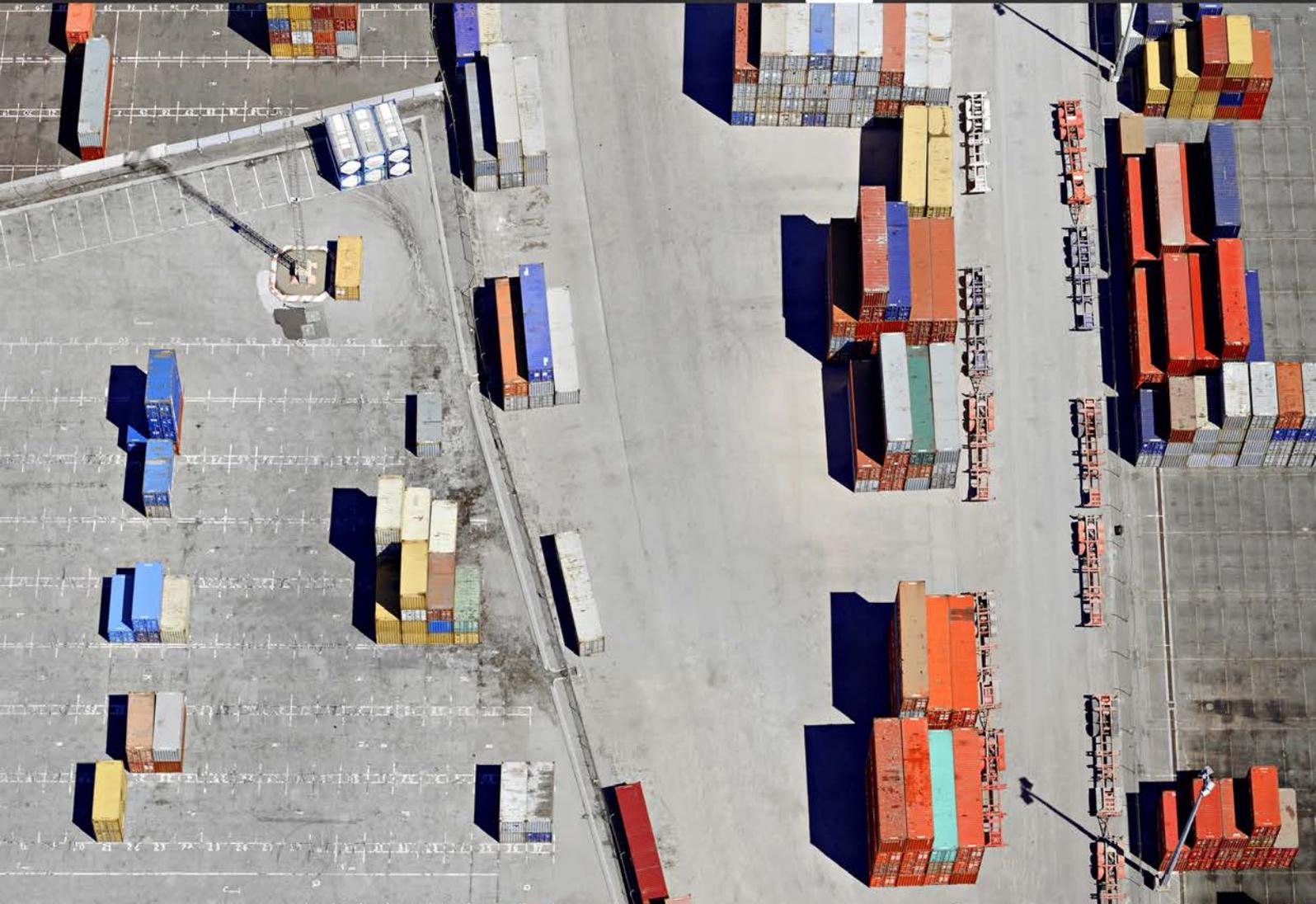


**ARTC Remuneration Report
FY2016**

ARTC



Remuneration Report

For the year ended 30 June 2016

The purpose of this Remuneration Report is to outline the approach to setting remuneration and the outcomes for ARTC's key management personnel for the year ended 30 June 2016.

The Remuneration Report outlines how ARTC applies its remuneration strategy to ensure an executive's remuneration package reflects the executive's duties, responsibilities and level of performance, and is aligned with the drivers of Company success. It also aims to ensure that remuneration is market competitive within the framework of applicable government policy while striving to attract, motivate and retain people of the highest quality.

ARTC's Board is committed to continually reviewing and improving its remuneration framework to strengthen the alignment between executive reward and the Corporation's performance while ensuring that employee rewards drive desired behaviours. This includes recognising the interests of our Shareholder and the Australian community.

The remuneration outcomes for FY2016 reflect the strong performance of the business and the progress made against the company's strategic objectives.

1. KEY MANAGEMENT PERSONNEL

This report covers ARTC's key management personnel (KMP). This includes the ARTC Board of Directors and the key management personnel who have authority and responsibility for planning, directing and controlling the activities of the Company. At the same time, it is recognised that the Non-Executive Directors oversee governance, but are not directly responsible for the management of the Corporation.

This report outlines information on the individuals outlined below for the year ended 30 June 2016.

| Name | Title | 2016 status | KMP Status |
|--------------------------------|--|------------------------|--------------------------------|
| Non-Executive Directors | | | |
| <i>Helen Nugent AO</i> | <i>Chairman</i> | <i>New appointment</i> | <i>Appointed 3 August 2015</i> |
| <i>Chris Barlow</i> | <i>Non-Executive Director</i> | <i>New appointment</i> | <i>Appointed 2 May 2016</i> |
| <i>Jay Bonnington</i> | <i>Non-Executive Director</i> | <i>Full year</i> | <i>Current</i> |
| <i>Gillian Brown</i> | <i>Non-Executive Director</i> | <i>Full year</i> | <i>Current</i> |
| <i>Pamela Catty</i> | <i>Non-Executive Director</i> | <i>Part year</i> | <i>Until 17 March 2016</i> |
| <i>Barry Cotter</i> | <i>Non-Executive Director</i> | <i>Part year</i> | <i>Until 17 March 2016</i> |
| <i>Lucio Di Bartolomeo</i> | <i>Non-Executive Director</i> | <i>Full year</i> | <i>Until 29 June 2016</i> |
| <i>Vince Graham</i> | <i>Non-Executive Director</i> | <i>New appointment</i> | <i>Appointed 8 March 2016</i> |
| Key Management | | | |
| <i>John Fullerton</i> | <i>Managing Director & Chief Executive Officer</i> | <i>Full year</i> | <i>Current</i> |
| <i>Andrew Bishop</i> | <i>Chief Financial Officer</i> | <i>Full year</i> | <i>Current</i> |
| <i>Peter Winder</i> | <i>Executive General Manager Interstate Network</i> | <i>Full year</i> | <i>Current</i> |
| <i>Jonathan Vandervoort</i> | <i>Executive General Manager Hunter Valley</i> | <i>Full year</i> | <i>Current</i> |

2. REMUNERATION SYSTEM

ARTC's vision is to make rail the mode of choice in the national logistics chain, by building and managing a world class national rail network that connects capital cities, regional centres, mining precincts and major ports with the industries that Australia's economy depends on. At the heart of ARTC's vision is the company's strong, values-based culture that focuses on the way it operates.

A key driver for change has been the company's Transformation Program aimed at becoming more customer focused and creating value for the users of our network. This entails building a strong leadership team and executing a disciplined program of transformation and operating reforms across the business to improve company performance and shareholder returns. The focus of the leadership team is to embed transformation into the way we work to build a strong culture, based on the company's new organisational values, and to provide the leadership throughout the business that delivers results.

Within this context, the objective of ARTC's remuneration system is to deliver results through aligning the interests of staff with that of the Shareholder, while attracting and retaining capable, high performing employees.

More specifically, ARTC strives to do this by:

- Aligning the interest of executives and our Shareholder by providing rewards that support shareholder value creation; and
- Attracting and retaining high calibre executives from diverse backgrounds through a fair and competitive remuneration structure that appropriately rewards and incentivises superior performance.

ARTC's key management personnel remuneration consists of two main elements, namely Fixed Annual Remuneration (FAR) and an at risk performance payment (STI). ARTC's remuneration policy is designed so that each element supports the overall objectives of the remuneration system.

Fixed Annual Remuneration

The remuneration for the Chairman and the non-executive directors of ARTC is determined by the Remuneration Tribunal.

The position of Managing Director and Chief Executive Officer of ARTC is classified as a Principal Executive Officer (Band D) and the remuneration applicable to this position is set, within the framework established by the Remuneration Tribunal, in consultation with the ARTC Board.

In relation to the other key management personnel, remuneration is set at the mid-point of the Mercer (Australia) determined benchmark associated with the work value of the role. These benchmarked remuneration ranges are set by Mercer following their independent examination of comparable roles in the Australian employment market. ARTC applies these ranges to attract quality, high performance personnel able to deliver value for the Shareholder.

Fixed remuneration takes into account the size and complexity of a recipient's role and the skills required to succeed in such a position. It includes cash salary, employer contributions to superannuation (Accumulation Scheme) and any salary sacrifice component. It is regularly reviewed against the median of comparably sized companies operating in similar markets, while remaining aligned to the interests of our Shareholder and the Australian community.

The fixed annual remuneration levels and short term incentive awards for the key management personnel are provided in Section 7.

STI Awards

Short Term Incentive (STI) awards are designed to reward superior outcomes in relation to key financial and operational measures that are linked to the Corporation's strategy.

To achieve the maximum award, the recipient's relevant financial and operational targets must be significantly exceeded.

The Managing Director and Chief Executive Officer's STI is determined by reference to the company's financial and safety performance for the year and the company's overall customer and employee engagement scores.

Additional personal measures are included that reflect strategic priorities, company transformation and delivering value for the Shareholder on specific initiatives.

The Board initiatives are detailed in the company's Statement of Corporate Intent and includes preliminary work to deliver Inland Rail on behalf of the Australian Government.

The STI for the other key management personnel is determined by reference to company and Business Unit performance as well as financial and operational measures. Examples of Business Unit measures include safety outcomes, financial results, customer satisfaction, employee engagement scores, project delivery milestones and rail network service delivery.

3. STI REWARD OUTCOMES FOR FY2016

Following the review by the Board of the financial performance of the company and the assessment of the progress made in relation to strategic business initiatives to determine the Managing Director and Chief Executive Officer's STI (referred to above), the Managing Director undertakes a review of the key management personnel's performance.

For FY2016, the Board on the recommendation of the People, Policy and Remuneration Committee determined that the Managing Director and Chief Executive Officer's scorecard be comprised of the following metrics, which had the outcomes outlined in Table A below.

Table A

| Key Result Area | Weighting | STI Outcome |
|---|------------------|--------------------|
| 1. <i>Drive the Leadership Transformation within the company and provide strategic leadership. Elements include:</i> <i>Drive leadership transformation</i> <i>Further evolve strategy</i> <i>Strategic leadership</i> <i>Safety outcomes</i> | 50% | Exceeded |
| 2. <i>Financial Performance:</i> <i>EBIT</i> <i>NPAT</i> | 30% | Exceeded |
| 3. <i>Continue to roll out the remaining key elements of the Transformation Program. Elements include:</i> <i>Effectiveness and efficiency</i> <i>Customer experience</i> <i>Employee engagement</i> <i>Training and development</i> | 20% | Exceeded |

| Key Management Personnel | Maximum Achievable STI¹ | FY2016 STI Outcome |
|---------------------------------|---|---------------------------|
| <i>J Fullerton</i> | 30% | 26.79% |
| <i>P Winder</i> | 20% | 14.8% |
| <i>J Vandervoort</i> | 20% | 14.8% |
| <i>A Bishop</i> | 20% | 15.2% |

The strong trading results of the company and the underpinning work on ARTC's corporate transformation and safety are reflected in the above assessment of the annual performance of the Managing Director and Chief Executive Officer and the performance of the other key management personnel. Refer to Section 7 for further details.

4. CONTRACTUAL ARRANGEMENTS FOR THE KEY MANAGEMENT PERSONNEL

The table below sets out the main terms and conditions of the employment arrangements for the key management personnel as at 30 June 2016.

| Title | Contract expiry | Notice period | Termination payments |
|---|--------------------------------|---------------------------------|------------------------------------|
| <i>Managing Director and Chief Executive Officer</i> | <i>Ongoing (no fixed term)</i> | <i>6 months by either party</i> | <i>Statutory entitlements only</i> |
| <i>Other KMP employed on an Enterprise Agreement or Individual Contract</i> | <i>Ongoing (no fixed term)</i> | <i>3 months by either party</i> | <i>Statutory entitlements only</i> |

5. REMUNERATION GOVERNANCE

The People, Policy and Remuneration Committee (PPRC) advise the Board on remuneration matters. It is comprised of a minimum of two Non-Executive Directors (NED).

The Chair of the ARTC Board acts as chair of this committee. All current members of the PPRC, including the Chair, are independent.

The Committee's non-executive Board members for most of 2015/16 were, Helen Nugent (Chairman), Pamela Catty and Barry Cotter. However, decisions in relation to STI outcomes were made after Ms Catty and Mr Cotter finished their term in March 2016. Mr Graham subsequently joined the Committee. Remuneration outcomes were approved by the full Board.

An open invitation, however, is extended to all NED's to attend PPRC meetings. The CEO also attends by invitation, except where a conflict of interest exists, such as in relation to his own remuneration.

The remuneration governance roles are outlined in the Table below:

¹ The annual short term incentive (STI) payable to J Fullerton is based on the assessed performance outcome expressed as a percentage and applied to the position's Reference Rate of \$492,840 as determined by the Remuneration Tribunal. The other KMP have their assessed annual performance outcome applied to their Fixed Annual Remuneration.



As one input to determining remuneration for key management personnel, the PPRC receives external remuneration advice. In 2016, such advice was received from Mercer Australia.

6. NON-EXECUTIVE DIRECTOR FEES

Fees for non-executive directors are set by the Commonwealth Remuneration Tribunal. ARTC's fees are based on the Tribunal's determination.

The Tribunal sets annual Chair and Board fees (exclusive of superannuation) inclusive of Committee participation. The following table sets out the fees received by Non-Executive Directors during the year.

| Non-Executive Director | Year | Short-term benefits (\$) | Post-employment Superannuation⁶ (\$) | Total Remuneration (\$) |
|-------------------------------------|-------------|---------------------------------|--|--------------------------------|
| <i>H. Nugent AO⁵</i> | 2016 | 102,725 | 9,759 | 112,484 |
| <i>C. Barlow¹</i> | 2016 | 9,718 | 923 | 10,641 |
| <i>J. Bonnington</i> | 2016 | 57,716 | 5,483 | 63,199 |
| <i>G. Brown</i> | 2016 | 57,716 | 5,483 | 63,199 |
| <i>P. Catty²</i> | 2016 | 41,519 | 3,944 | 45,463 |
| <i>B. Cotter²</i> | 2016 | 41,519 | 3,944 | 45,463 |
| <i>L. Di Bartolomeo³</i> | 2016 | 57,716 | 5,483 | 63,199 |
| <i>V. Graham⁴</i> | 2016 | 18,140 | 1,723 | 19,863 |
| Total | 2016 | 386,769 | 36,742 | 423,511 |

1. Appointed 2 May 2016

2. Until 18 March 2016

3. Until 29 June 2016

4. Appointed 8 March 2016

5. Appointed 3 August 2015

6. Superannuation guarantee payments which is described in Section 2

7. KEY MANAGEMENT PERSONNEL REMUNERATION

The following table details the remuneration as at 30 June 2016 for Key Management Personnel who have authority and responsibility for planning, directing and controlling the activities of the Company.

| KMP | Year | Short-term benefits | | | Post-employment | Other long-term benefits | Termination benefits | Total |
|---------------|------|---------------------------------------|------------------|-------------------|-----------------------------|--------------------------------------|----------------------|-----------|
| | | Base Fixed Annual Salary ¹ | STI ² | Non-cash benefits | Superannuation ³ | Long-service leave accrued in FY2016 | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| J Fullerton | 2016 | 528,932 | 132,032 | - | 19,308 | 14,759 | - | 695,031 |
| A Bishop | 2016 | 390,489 | 62,289 | - | 19,308 | 13,955 | - | 486,041 |
| P Winder | 2016 | 417,492 | 64,646 | - | 19,308 | 7,165 | - | 508,611 |
| J Vandervoort | 2016 | 396,692 | 61,568 | - | 19,308 | 6,816 | - | 484,384 |
| Total | 2016 | 1,733,605 | 320,535 | - | 77,232 | 42,695 | - | 2,174,067 |

1. Base annual salary (incl. annual leave) as at 30 June 2016, but excludes superannuation guarantee payments

2. Bonus payments relating to the 2016 financial year performance were paid in October 2016

3. Superannuation guarantee payments, which is described in Section 2.