DIRECTORS' REMUNERATION REPORT

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIR

I am pleased to present the 2016 directors' remuneration report from the Network Rail remuneration committee. The remuneration committee is committed to the highest standards of disclosure on remuneration and recognises that executive pay is an important issue for a public body. We operate in line with the remuneration reporting requirements which apply to UK listed companies and the provisions of the UK corporate governance code.

At the AGM in 2014 the Remuneration Policy (Policy) was approved. This sets out the framework and limits for how our directors are paid. The Policy was included in the 2013/14 directors' remuneration report and can also be viewed on our website: networkrail.co.uk

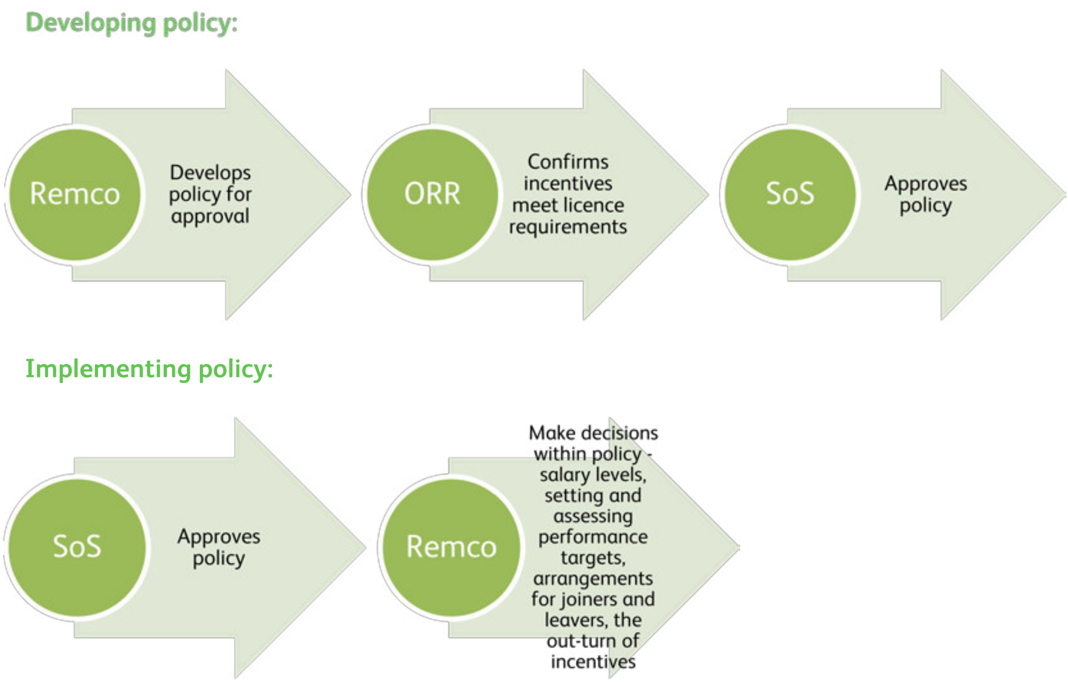
Our annual remuneration report explains the executive remuneration outcomes in respect of 2015/16 and will be subject to approval from our member, the Secretary of State for Transport, at the 2016 AGM. Key points to note are:

- The executive remuneration framework at Network Rail has three components – salary, benefits/pension and an incentive plan. The incentive plan is based on performance in the year and payment is deferred for three years.
- The maximum performance related incentive payment that can be paid to an executive director is 20 percent of salary.
- The annual incentive paid out at 34.7 percent of maximum opportunity, which equates to 6.94 percent of salary for executive directors.

The rest of this report explains how executive remuneration is determined at Network Rail and provides further information on outcomes in respect of 2015/16.

Determining executive pay at Network Rail – best practice corporate governance

Network Rail has a corporate governance structure which operates within best practice principles. The remuneration of the executive directors is determined by the remuneration committee and subject to approvals as illustrated below:



DIRECTORS' REMUNERATION REPORT CONTINUED

During the year the committee has been operating within the policy approved at the 2014 AGM. The key items discussed by the committee were:

- Out-turn of incentive plans
- Review of clawback wording
- Executive directors' objectives
- Remuneration benchmarking
- Review of terms of reference and incentives policy
- Pay business case.

During the year the committee welcomed Richard Brown and Sir Peter Hendy, who was appointed chair of Network Rail in July 2015. The 2014/2015 remuneration report was approved by the DfT at the AGM.

Implementation of the remuneration framework to deliver Control Period 5 commitments

In 2014, when developing the Policy, the committee identified four principles on which the Control Period five (CP5) remuneration framework is based. These principles continue to underpin the approach:

Simple - The framework should be simple and transparent for all stakeholders to understand.
Competitive and fair - Attracting and retaining leaders of the necessary calibre requires remuneration arrangements that are reasonable in the markets in which we compete for talent and which fairly reflect the appropriate market rates for the skills and experience of the individual. At the same time, we always remain cognisant of the need to ensure value for money and to reflect our status as a publicly funded body.
Performance and safety - There should be a performance-related element of the package which rewards performance in areas that are most important for our stakeholders. There should be no reward for failure. Safety of the workforce, passengers and the general public is at the heart of everything we do and must be reflected in the remuneration framework.
Aligned with employees - Where possible, remuneration structures will be aligned across the organisation. All Network Rail employees continue to be eligible for incentive payments, determined using a consistent performance framework across the organisation.

Based on these principles, the remuneration framework for executive directors introduced in 2015 was greatly simplified. No payments outside this framework may be made. The key changes were to simplify the structure and dramatically reduce the maximum incentive opportunity from 160 percent of salary to 20 percent of salary. The structure is summarised below:

Salary	Salaries are set at a level which reflects the skills and experience of the individual as well as the scope of the responsibilities of the role.
Benefits and pension	Participation on the same basis as other managerial positions at Network Rail.
Incentive	One incentive plan based on the achievement of stretching annual performance targets aligned to the business scorecard.

Network Rail is large and complex and continues to need talented people to deliver the long-term objectives in CP5 and beyond, while remaining dedicated to ensuring the safety of our passengers, our workforce and the public on a daily basis.
Remuneration needs to be appropriate to attract the right talent whilst recognising Network Rail is publicly funded.

2016 outcomes

Performance related pay remains a core principle of the remuneration policy, with no reward for failure.
Performance around our safety, investment and asset management measures was strong in 2015/16. However reporting on train performance, financial and satisfaction measures has highlighted these as areas for improvement. Overall performance against the scorecard was 36.6 percent. For bonus scheme purposes this was adjusted downwards by 1.9 percentage points to 34.7 percent of the possible 20 percent maximum (i.e. 6.94 percent of salary).

→ Full details of the decision making and out-turn of the performance related incentive can be found on page 73.

Implementation in 2016/17

There are no changes proposed to the remuneration policy this year.

The business scorecard, which is a key factor in determining performance related incentive payments, has been reviewed to reflect the further devolution to the Routes. The national balanced scorecard will now be a reflection of the key measures that are important to Routes to deliver performance for our customers. Sixty percent of the scorecard has fixed measures and weightings, safety, finance and asset management. This provides comparability and consistency. Train performance indicators makes up twenty percent of the scorecard, with each Route selecting from a defined list of consistent metrics. The remaining twenty percent of the scorecard reflects other measures according to customer needs. The overall national scorecard will be an aggregate of the Route scorecards.

This approach balances consistent metrics in areas where comparability is useful with metrics that are important to customers. All of the targets set are stretching and reflect performance improvements.

The remuneration committee welcomes the conclusions from the Shaw report that:

1. Network Rail needs to review its remuneration and benefits package to ensure that it is capable of attracting the right calibre of people to lead the autonomous elements of a highly devolved organisation. (R7.10)
2. It is important that pay is not a deterrent in attracting the right people. Salary levels for some roles are uncompetitive in comparison to the wider industry. (R7.11)
3. The DfT, Cabinet Office and HMT should swiftly determine how any necessary flexibility in pay can be provided as Network Rail has limited flexibility in these areas. (R7.12)

DIRECTORS' REMUNERATION REPORT CONTINUED

During the next year the remuneration committee will consider these recommendations as part of the planned review of the remuneration policy, with full stakeholder engagement. This will take part in the latter part of 2016 with a view to recommending changes in early 2017.

Michael O'Higgins
Chair, remuneration committee
30 June 2016

ANNUAL REMUNERATION REPORT

This report has been prepared in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Report) (Amendment) Regulations 2013. Some of the disclosures in these sections, where indicated, have been audited.

Single total figure of remuneration for 2015/16 (audited)

The table below summarises all remuneration for the executive directors in respect of 2015/16 (and the prior year comparative). Further discussion of each of the components is set out on the pages which follow.

£'000	Salary		Benefits[4]		Pension[5]		Annual Incentive Plan (AIP)[6]		Total	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
Mark Carne	675	675	17	17	67	79	47	0	806	771
Patrick Butcher[1]	377	410	13	16	119	133	0	0	510	559
Paul Plummer[2]	217	362	8	17	115	168	0	0	340	547
Jeremy Westlake[3]	31	-	1	-	3	-	-	-	36	-

1. Patrick Butcher stepped down from the board on 24 February 2016.
2. Paul Plummer stepped down from the board and took payment of his pension benefits upon leaving employment on 1 November 2015.
3. Jeremy Westlake was appointed to the board on 24 February 2016.
4. Benefits include car allowance, private medical cover, any annual travel subsidy, life assurance and relocation costs reimbursed.
5. Pension includes the value of all pension benefits receivable in respect of the relevant year. This includes both the supplementary cash allowance and a value from participation in the defined benefit or defined contribution pension arrangements (calculated in accordance with the methodology prescribed by the Regulations). Further details of these pension benefits are set out in the pension section on page 75.
6. The annual incentive plan payment will be deferred in full for three years and is then subject to meeting the safety and sustainability obligation.

Executive Director changes

The remuneration arrangements for Paul Plummer and Patrick Butcher who left the board during the year were in accordance with the Policy. The arrangements are summarised below:

Paul Plummer	• Stepped down from the board on 1 November 2015 • No payment in lieu of notice was made • No other termination payment was made • No eligibility for the 2015/16 incentive plan • His replacement is not a board appointment.
Patrick Butcher	• Stepped down from the board on 24 February 2016 • No payment in lieu of notice was made • No other termination payment was made • No eligibility for the 2015/16 incentive plan.

Jeremy Westlake was appointed to the board during the year. His remuneration package is in accordance with the remuneration policy.

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DIRECTORS' REMUNERATION REPORT CONTINUED

Incentive plan 2015/16 – annual incentive plan (audited)

The maximum potential AIP award for executive directors in 2016 was 20 percent of salary. Stretching performance targets were set at the start of the year in the context of the corporate scorecard, which can be found on page 8.

For executive directors one half of the plan is based on the out-turn against the corporate scorecard. The other half is based on achievement against personal objectives.

Performance against the corporate scorecard is summarised on page 8. Overall performance was below expectations. Specifically performance was good/exceeded expectations in relation to safety, investments and asset management. Areas where improvement is required includes train performance, financials and satisfaction.

ORR Board wrote to Network Rail's remuneration committee setting out its views on Network Rail's performance in 2015/16. The ORR specifically considered Network Rail's performance against the measures and targets in the corporate scorecard. ORR's comments reflected the out-turn against the measures and therefore the remuneration committee did not believe any additional adjustments should be made in light of ORR's comments.

The safety, health and environmental committee (SHE) also commented on performance, specifically in relation to safety. They noted good safety performance in relation to further passenger safety, workforce safety, public safety, including level crossings and further reducing train accident risk. No downward adjustment was therefore recommended.

At the start of the year, three directors were eligible to participate in this scheme, Mark Carne, Paul Plummer and Patrick Butcher. Both Paul and Patrick stepped down from the board during the year and therefore are not eligible to receive payments. Jeremy Westlake joined the board on 24 February 2016, and is not eligible to participate in the incentive plan for 2015/16.

One half of the incentive for executive directors is based on the corporate scorecard out-turn and the other half on personal performance. Mark Carne's performance against his objectives was assessed by Sir Peter Hendy who concluded that the element of bonus that is based on personal performance should be aligned to the corporate scorecard out-turn.

The executive committee reviewed performance against the scorecard and recommended to the remuneration committee that there should be a downward adjustment of 1.9 percentage points. This reflects the decline in performance at the end of the year in relation to enhancements financial performance metric (FPM). Performance against this measure was below the minimum performance level, so would not trigger a bonus payment. It then declined further at the end of the year. The executive committee felt that this further decline in performance should be reflected and therefore recommended a 1.9 percentage points downward adjustment to the scorecard for bonus purposes, which was approved by the remuneration committee. The overall out-turn of the scorecard for the year was 36.6 percent, with the downward adjustment of 1.9 percentage points, the bonus out-turn was 34.7 percent of opportunity.

Payments for executive directors are deferred in full for three years and are subject to the safety and sustainability obligation (see page 8 for more information).

Long term incentives (LTIP) (audited)

2012/15 LTIP

This is the last legacy LTIP for Network Rail. Current and future incentives are paid through the annual scheme detailed in the previous section.

KEY FEATURES

- Awards approved at the 2013 AGM
- Based on a performance period covering the three years to 31 March 2015
- Vesting based on performance in three areas: 50 percent based on financial value added (FVA), 25 percent based on PPM, and 25 percent based on project milestones and underpins being met
- The underpins to the plan were not met and as a result, **the awards lapsed**.

DIRECTORS' REMUNERATION REPORT CONTINUED

The performance targets for this award are set out below and were discussed in detail in the 2012/13 directors' remuneration report.

		Performance measures		
	% of maximum	Cumulative FVA over FY 13-FY15	PPM moving annual average	Project milestones
Proportion of award		50 %	25 %	25 %
Performance above expectations	25 %	£75m	92.5 %	Delivery above expectations
Exceptional performance	100 %	£450m or above	93.0 % or above	Exceptional delivery

No payment below the threshold performance level. For performance between the levels shown, vesting is on a scaled basis.
The LTIP used two underpins and the committee retained discretion to make a suitable downward adjustment to vesting levels if the underpins were not satisfied. This was to provide a safeguard such that performance in one area must not be achieved at the expense of another. Any vesting on the operational measure was subject to a positive cumulative FVA over the period. Any vesting on the FVA measure was subject to the committee's assessment that the key regulatory outputs had been sufficiently delivered.
Under the clawback provision, the committee had discretion to reduce or cancel an award at any time before vesting, if circumstances were considered appropriate. These include:

- Gross misconduct
- A material misstatement of the company's audited results
- An unacceptable level of safety performance. In the event of a catastrophic accident for which Network Rail was culpable, no LTIP would normally be payable to any Network Rail executive director
- A material failure of risk management
- A failure to comply with obligations set out in applicable contractual agreements
- Serious reputational damage to the company as a result of the participant's misconduct.

The 2012/13 directors' remuneration report stated that as the plan spans two control periods, the targets would be verified once the determination was published and targets for the period in CP5 that this plan covers were finalised. The committee reviewed the targets once the determination was finalised and concluded that no changes should be made to the targets as the targets originally set were still appropriate.

Of the three measures, two did not meet the target, FVA and PPM and therefore no payment was triggered for them. The third measure, project milestones, achieved performance above the trigger with 82 percent of project milestones being achieved. Each measure is also subject to an underpin to vest. The project milestones measure had an underpin of positive cumulative FVA during the performance period. This underpin was not met and, as a result, the measure did not vest.

As none of the measures met both the threshold and the underpin, the plan did not vest and no payments were made to participants.

The following table summarises the awards under the 2012-15 LTIP at the time of vesting.

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	Date of award*	Performance period	Maximum value of initial award £000	Changes since award** £000	Value of award at vesting £000
Mark Carne	Not eligible	-	-	-	0
Patrick Butcher	2013	2012-2015	**395**	(395)	0
Paul Plummer	2013	2012-2015	**338**	(338)	0

*Awards were made following member approval at the 2013 AGM.
**Illustrates the change in the outstanding value of the award to reflect awards lapsing on cessation of employment as a Network Rail executive director during the performance period.

Pension (audited)

Executive directors are eligible to participate in the Network Rail defined benefit pension schemes or defined contribution pension scheme on the same basis as other employees. Executive directors who have opted out of their respective pension arrangements to protect their lifetime allowance of £1.25m to 5 April 2016 (£1m from 6 April 2016) are eligible to receive a pension allowance on the same basis as other employees. This allowance is equivalent to the employer's pension contributions otherwise payable to the relevant pension scheme less the cost of providing continued life cover and less the employer National Insurance Contributions payable. In respect of salary above the Network Rail earnings cap (currently £150,600 although benefits were based on last year's value £149,400), executive directors and senior management may receive an additional pension allowance in the form of a cash salary supplement or contribution to a defined contribution scheme.

The table below sets out details for executive directors for 2016 in respect of all Network Rail pension benefits, split between the defined benefit and defined contribution/additional allowance. The value shown in the final column of this table is included as the pension column in the single total figure of remuneration on page 72.

	Defined benefit schemes					Other pension arrangements	
	Normal retirement age	Accrued pension at 31 March 2016 £000	Increase in accrued pension (net of inflation) during 2015/16	Transfer value of accrued pension at 31 March 2016 £000	Value included in single figure table (A) £000	Cash salary supplement or contribution to defined contribution scheme (B) £000	Total pension value reported in single figure table (A+B) £000
Patrick Butcher*	65	12	0.1	188	2	118	119
Mark Carne	–	–	–	–	–	67	67
Paul Plummer**	60	–	2	–	55	60	115
Jeremy Westlake	–	–	–	–	–	3	3

The normal retirement age shows the age at which the director can retire without actuarial reduction.

Transfer values as at 31 March 2016 have been calculated in accordance with 'The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008'.

For the defined benefit schemes, the value shown in the Single Figure table (A) has been calculated in accordance with the Regulations by applying a multiplier of 20x to the increase in accrued pension (net of inflation) during the year. For the additional pension allowance (B), the value shown is the gross cash allowance/contribution in the year. The value shown in the single figure table is the sum of A and B.

The increase in accrued pension, and single figure table numbers for Patrick Butcher and Paul Plummer, are based on the periods from 1 April 2015 to their respective leaving dates.

*Patrick Butcher's accrued annual pension and transfer value prepared as at the date he stepped down from the board, 24 February 2016.

**On leaving employment on 1 November 2015, Paul Plummer took payment of his pension benefits, actuarially reduced to reflect his early retirement. At that point, his accrued pension at normal retirement age was £39,000 (rounded) per annum and the cash equivalent transfer value of his accrued pension was £426,000 (rounded).

DIRECTORS' REMUNERATION REPORT CONTINUED

Non-executive directors' fees (audited)

Under the framework agreement the Secretary of State for Transport (SoS) sets the pay for the chair and non-executive directors of Network Rail. The fees for the non-executive directors were reviewed in March 2016.

The table below summarises the remuneration for the non-executive directors in respect of 2015/16.

	2015/16		2014/15	
	Fees £000	Benefits £000	Fees £000	Benefits £000
Rob Brighouse[1]	12	-	-	-
Malcolm Brinded	60	-	60	-
Richard Brown[2]	37	-	-	-
Sharon Flood	50	-	30	-
Chris Gibb	50	-	50	-
Peter Hendy[3]	350	1	-	-
Janis Kong	69	-	63	-
Michael O'Higggins	60	-	60	-
Richard Parry-Jones[4]	75	-	250	-
Bridget Rosewell	70	-	67	-

1 Rob Brighouse joined the board on 1 January 2016
2 Richard Brown joined the board on 1 July 2015
3 Sir Peter Hendy joined the board on 16 July 2015. In addition to fees he receives private medical cover which was agreed by the DfT at the time of appointment.
4 Richard Parry-Jones stepped down from the board on15 July 2015

Payments to former directors (audited)

There were no payments to former directors in 2015/16.

Payments for loss of office (audited)

There were no payments for loss of office to executive directors in 2015/16.

Outside appointments

Network Rail is supportive of executive directors who wish to take on a non-executive directorship in order to broaden their experience and enhance their contribution to Network Rail. Executive directors are normally required to seek approval from the committee to retain any fees they receive in respect of such appointments.

Service agreements

Executive directors have service agreements which can be terminated by the company or the director by giving six months' notice. This applies to all current executive directors and would normally be applied as the policy for future appointments.

Name	Effective date of agreement	Notice period (from executive director and from Company)
Mark Carne	6 January 2014	6 months
Jeremy Westlake	24 February 2016	6 months

The company may terminate employment by making a payment in lieu of notice which would not exceed six months' salary. Each service agreement contains an express provision requiring the departing executive director to mitigate their loss. Network Rail would have regard to that duty and contractual requirement on a case by case basis when assessing the appropriate level of compensation which may be payable, including using phased payments.

Additional disclosures

The following disclosures are required by the Regulations to provide additional context for considering executive remuneration.

DIRECTORS' REMUNERATION REPORT CONTINUED

Percentage change in remuneration

The table below shows the percentage change in the salary, benefits and AIP of the chief executive and all Network Rail employees from 2014/15 to 2015/16.

For the purposes of the table below, the annual change in the value of each of the components for the chief executive has been calculated using the data disclosed in the relevant columns of the single total figure of remuneration table on page 72.

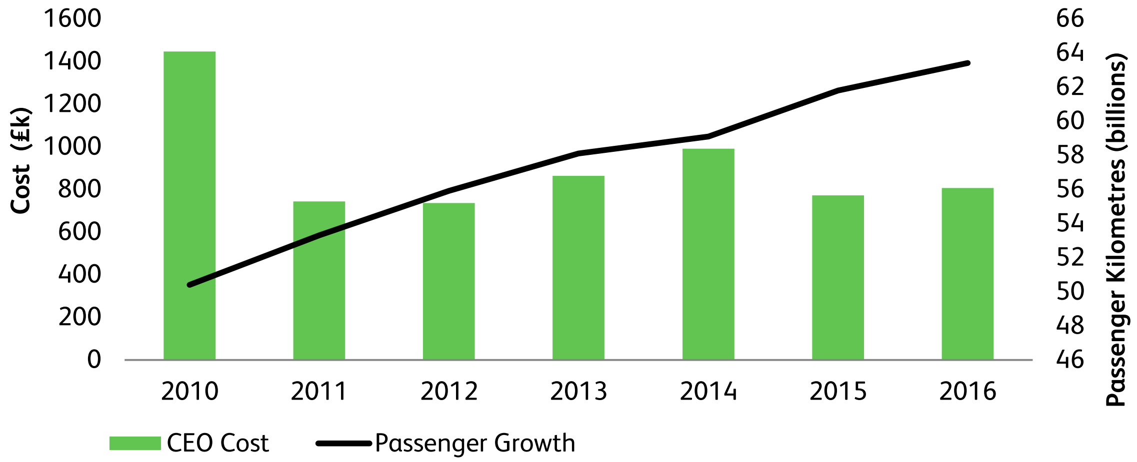
	Chief executive	All employees
Salary	0 %	1.35 %
Benefits	0 %	0 %
Bonus	0 %	0 %

Salary review effective on either 1 January or 1 July 2015. Bonus is based on any changes to maximum opportunity.

Performance graph and table

Under the Regulations, companies are required to include a chart showing historic total shareholder return (ie. share price and re-invested dividends) over a seven-year period alongside a table that shows the remuneration paid to the chief executive over the same period. As Network Rail does not have shares, or a share price, an alternative metric of passenger kilometres travelled has been used.

Number of passenger kilometres travelled



	2015/16	2014/15	2013/14		2012/13	2011/12	2010/11		2009/10
Chief executive	Mark Carne	Mark Carne	Mark Carne	David Higgins	David Higgins	David Higgins	David Higgins	Iain Coucher	Iain Coucher
Single total figure of remuneration	806	£771k	£200k	£790k	£836k	£736k	£161k	£528k	£1,447k
AIP (% of vesting)	34.7 %	0 %	20.9 %	N/A	28.6 %	0 %	N/A	N/A	56.8 %
LTIP (% of vesting)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	47.8 %

Iain Coucher was appointed chief executive on 22 March 2002. He resigned on 31 October 2010
David Higgins was appointed chief executive on 1 February 2011. He resigned on 28 February 2014
Mark Carne was appointed chief executive on 24 February 2014
N/A indicates that there was no eligibility for an award vesting in respect of the relevant year

DIRECTORS' REMUNERATION REPORT CONTINUED

Relative importance of spend on pay

Under the Regulations, companies are required to illustrate the relative importance of spend on pay by disclosing the total employee remuneration and returns to shareholders (i.e. dividends and share buybacks) in the reporting year and the prior year. Network Rail is a not-for-dividend company and therefore cannot provide data on returns to shareholders. Therefore, in line with the principle of this disclosure, the table below includes other key Network Rail metrics to illustrate employee remuneration in the context of overall business activities.

	2015/16	2014/15	Change (%)
Total employee remuneration	£1.929m	£1,919m	0.5 %
Total expenditure	£9,637m	£9,391m	2.6 %

Consideration of directors' remuneration – remuneration committee and advisers

The membership of the committee during the year comprised the following independent non-executive directors: Michael O'Higgins, Chris Gibb and Sharon Flood. Richard Parry-Jones left the committee on 15 July 2015 when he stepped down from the board. Sir Peter Hendy joined the committee on 16 July 2015, and Richard Brown on 1 July 2015 when they were appointed to the board.

The group general counsel and company secretary is secretary to the committee. The committee is also supported by the director, Human Resources, and Head of Reward and Benefits. The chief executive attends meetings at the invitation of the committee. No individual is present when their own remuneration is being discussed.

In carrying out its responsibilities in line with best practice, the committee seeks independent external advice as necessary. During the year, the committee retained Deloitte LLP to provide independent advice on executive remuneration. Deloitte was appointed by the committee in 2012 following a selection process undertaken by the committee. The committee is comfortable that the Deloitte engagement partner and team provide objective and independent remuneration advice to the committee and do not have any connections with Network Rail that may impair their objectivity and independence. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at http://www.remunerationconsultantsgroup.com/.

During 2016, Deloitte provided independent advice to the committee in respect of developments in corporate governance and market practices. The fees charged by Deloitte for the provision of independent advice to the committee during 2016 were £13,750. Deloitte also provide services to the group in respect of programme support to Network Operations, Digital Railway and group finance and property advice.

Key remuneration committee agenda items during the year:

April 2015	• Out-turn of annual incentive plan 2014/15 and LTIP 2012-15 • Clawback wording • Review of directors' remuneration report
May 2015	• Executive director objectives • Remuneration benchmarking • Terms of reference review • Incentives policy review
December 2015	• Business case for employees with a salary over £142,500 • Christmas 2014 delays and bonus impact • Public sector cap on exit payments
March 2016	• Incentive scheme 2016/17 • Business case for employees with a salary over £142,500 • Directors' remuneration report update • Executive committee annual salary review

CORPORATE GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

Committee members

Member	Formal appointment to committee	Number of meetings attended during the year
Richard Brown	July 2015	3/3
Sharon Flood	September 2014	5/5
Chris Gibb	September 2014	5/5
Sir Peter Hendy	July 2015	3/3
Michael O'Higgins*	November 2011	5/5
Previous members during the year		
Richard Parry Jones	June 2012 – July 2015	2/2

**Chair since 2013*

Role of the remuneration committee

The role of the committee is to determine the policy for executive director remuneration and to make decisions within the policy. This includes the policy around pay, benefits, pension and performance related incentives.

→ The full terms of reference of the committee can be found on the website: networkrail.co.uk

Remuneration policy for 2016/17

Principles which underpin the framework

Simple	Competitive and fair	Performance and safety	Aligned with employees
The framework should be clear and transparent for all stakeholders.	Remuneration should appropriately reflect the skills and experience of the individual and the scope and complexity of the role. At the same time, should provide value for money for taxpayers and passengers.	The incentive framework should reward exceptional performance in the areas most important for our stakeholders, such as safety, train performance and financial management. There should be no reward for failure.	The incentive structure is cascaded to all Network Rail employees to create alignment throughout the business. Business performance is consistently measured through the scorecard.

Summary of remuneration policy for CP5

The structure of the remuneration framework for executive directors in CP5 is summarised below. No payments outside of this framework can be made following approval of the policy at the 2014 AGM.

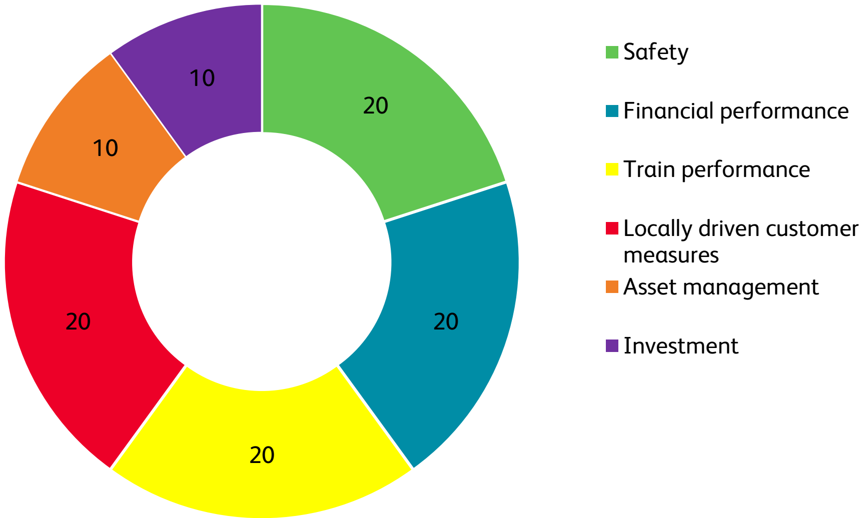
Future changes to the remuneration policy must be approved by the SoS, in accordance with the framework agreement.

Fixed remuneration	Salary	Salaries are set at a level that reflects the capability, skills and experience of the individual as well as the scope and responsibilities of the role allowing the company to recruit the calibre of individual needed to lead the business. In line with other employee groups, salaries are reviewed annually and increases will normally be in line with the typical salary increase for the overall employee population over the same period.
	Benefits	Includes discounted rail travel and life insurance in line with all Network Rail employees, as well as car and healthcare benefits aligned with those for other management positions.
	Pension	Eligible to participate in Network Rail pension schemes on the same basis as all employees. To provide a market competitive pension benefit, executive directors and senior managers may also receive a supplementary cash allowance of ten percent of salary above the Network Rail pension cap.
Performance related	Incentive	One incentive plan based on the achievement of stretching annual performance targets in the areas which our stakeholders care most about. All Network Rail employees are eligible to participate, based on aligned business scorecard. For executive directors, a maximum annual opportunity of 20 percent of salary, subject to performance and any amount is deferred for three years, subject to safety and sustainability obligations over the period being met.

Any new appointments are based on the framework above. Should an executive director leave the business, there would be no reward for failure. Further detail on the framework above is provided in the remuneration policy published in 2014 which is available on the Network Rail website: networkrail.co.uk

DIRECTORS' REMUNERATION REPORT CONTINUED

Incentive structure for executive directors – aligned to what is important for stakeholders



A national scorecard which is split between long-term stewardship of the railway and annual operating performance.

Measures aligned with those that are most important to stakeholders.

Executive director outcome determined → Three year deferral period → Safety and sustainability obligations → Payout

Half of the incentive is based on the national corporate scorecard and half based on personal objectives. This allows incentive payments to reflect the performance of different business areas.

The committee takes into account overall business performance in the year, including safety performance, and may adjust the outcome on this basis. In the event of a serious incident for which Network Rail was responsible, no incentive would normally be payable to any executive director.

Any amount earned is deferred for a period of three years in line with best practice.

To pay any deferred amount, the committee must confirm the safety and sustainability obligations over the period have been met. To the extent that they are not met, the committee can reduce the deferred amount.

DIRECTORS' REMUNERATION REPORT CONTINUED

Safety and sustainability obligations
The payment of any deferred amount is subject to the committee's confirmation that the safety and sustainability obligations described below have been met. In the event that the obligations are not met, the committee may reduce the value of the deferred amount (including to zero), or impose further conditions which must be fulfilled prior to payment.

Details of how the committee had undertaken the assessment prior to payment of an award would be disclosed in the relevant annual remuneration report.

Safety
In the event of a serious safety incident during the deferral period which impacts passengers, workforce, or the general public, for which Network Rail was responsible, the committee has discretion to reduce the deferred amount(s) which may be payable to an executive director (including to zero).

Sustainability of business performance
The committee must confirm that performance delivered in the performance year has been appropriately sustained over the deferral period. No specific targets would apply for this assessment, but the committee would consider the following indicators:

- **Material downturn in a metric -** the committee's assessment of the extent to which performance in each of the metrics under the balanced scorecard (including safety) has been appropriately sustained in the years following the performance year. A consistent and material downturn in performance for a particular metric following the performance year may indicate performance has not been appropriately sustained.
- **Undermining long-term stewardship -** determination by the committee that annual operating performance targets have not been achieved as a result of actions which could undermine effective stewardship and performance of the railway network over the long term.
- **Overall CP5 consistency -** incentive payouts in respect of CP5 which, in aggregate, are consistent with overall performance in CP5 against the regulatory objectives.

Other circumstances:
- A material misstatement of the company's audited financial results and disclosed operational performance.
- A material failure of risk management, or a failure to comply with obligations set out in applicable contractual agreements (including the network licence, the access agreements or other relevant contracts).
- Gross misconduct.
- Serious reputational damage to the company as a result of the participant's misconduct or otherwise.

Revised UK Corporate Governance Code
In September 2014 the UK Corporate Governance Code was revised. The committee reviewed the Network Rail remuneration framework and confirmed that it was in line with the revised requirements. Compliance with the code now requires companies to have provisions to recover or withhold incentive payments to executive directors in circumstances where it is considered appropriate to do so. Under the Network Rail incentive structure any incentive payment earned in respect of performance in a financial year must be deferred in full for a period of three years over which it is subject to the terms of the safety and sustainability obligation detailed above and allows the committee to withhold the full amount of any payment in a wide range of circumstances related to safety and the sustainability of business performance. The committee believes these provisions satisfy the requirements of the revised code in this area.

Balanced scorecard business performance targets for 2016/17
The table on the following page summarises the proposed business performance measures for executive directors for the 2016/17 financial year based on the framework described on page 8.

The overall national business scorecard used to measure performance every period is used for incentive plan measures and targets across the business.

For the last two years Network Rail has used a corporate scorecard to assess business performance, drive improved safety, operational and fiscal performance and create greater transparency throughout the organisation.

Network Rail has evolved the scorecard for 2016/17 to take account of further devolution. Customer led scorecards for each of the routes have been developed. The aggregate of these route scorecards will form the new national scorecard.

The new route based scorecards retain consistency and comparability by having 60 percent as fixed measures and weightings for safety, finance, asset management and investment. Route train performance indicators make up 20 percent of the scorecard and have been selected from a defined list of consistent metrics. The final 20 percent of the route scorecards reflect other measures with weighting depending on customer needs.

DIRECTORS' REMUNERATION REPORT CONTINUED

This gives a balance between consistent measures in critical areas where direct comparability is desirable and metrics defined by customers. In each category demanding targets will be set, requiring improved performance in every aspect.

The framework of the 2016/17 national scorecard is detailed below including measures and weightings. The scorecard is subject to final confirmation with the DfT.

Area		Performance measure	Weighting	Included Measure
Fixed 60%	Safety	Lost Time Injury Frequency Rate (LTIFR)	20 %	5.0 %
		Close calls raised		2.0 %
		Close calls % closed within 90 days		3.0 %
		Passenger component of train accident risk where Network Rail is the risk controller		5.0 %
		Top 10 Milestones to reduce level crossing risk		5.0 %
	Financial Performance	Financial Performance Measure (FPM) - excl. enhancements (£m)	20 %	10.0 %
		Financial Performance Measure (FPM) - enhancements only (£m)		5.0 %
		2016/17 Cash Compliance		5.0 %
	Investment	Key milestones of top 10 enhancement projects	10 %	5.0 %
		% of Grip 3 & 6 milestones achieved		5.0 %
	Asset Management	Composite Reliability Index (CRI)	10 %	5.0 %
		7 Key Volumes		5.0 %
Locally Driven 40%	Train performance	PPM	20 %	9.3 %
		CaSL		3.5 %
		Right Time Arrivals		1.6 %
		Freight delivery metric (FDM)		4.0 %
		Other		1.6 %
	Customer Measures	People Measure	20 %	3.2 %
		Passenger Satisfaction		5.8 %
		Reduction in Railway Work Complaints		2.2 %
		Other		8.8 %