



**Network Rail Limited**

**(the “Company”)**

**Terms of Reference**

**for**

**The Remuneration Committee of the Board**

**Membership**

- 1** The Remuneration Committee shall be appointed by the Board of Directors of the Company (the “**Board**”) and shall comprise the Special Director (as defined in the Company’s Articles of Association) and at least two other members.
- 2** Other than the Special Director, all members of the Remuneration Committee shall be independent non-executive directors with no personal financial interest in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business (“**Independent Non-Executive Directors**”). The members of the Remuneration Committee shall be listed in the annual remuneration report.
- 3** The Board shall appoint one of the Independent Non-Executive Directors to be chairman of the Remuneration Committee. The Independent Non-Executive Directors will normally serve for a period of not less than three years unless determined otherwise in agreement with the Board and subject to the normal periodic re-election of directors.
- 4** The Company Secretary of the Company shall act as secretary of the Remuneration Committee (the “**Secretary**”).

**Proceedings of the Remuneration Committee**

- 5** The Remuneration Committee shall meet formally at least once a year for the purposes referred to in paragraphs 5.1 to 5.4 below and otherwise at such frequency as circumstance demands:
  - 5.1** to approve an annual report of the Remuneration Committee to members of the Company;

- 5.2 to prepare and agree an Incentive Plan (the “**Incentive Plan**”) in accordance with the Incentive Policy (as defined in the Company’s Articles of Association) (the “**Incentive Policy**”);
- 5.3 to evaluate the Company’s performance against the targets and other objectives set out in the Incentive Plan applicable to the preceding fiscal year and to determine the variable proportion of the maximum remuneration pool available for distribution in accordance with the relevant Incentive Plan for that year;
- 5.4 to review the incentive arrangements made for the previous year.
- 6 A meeting of the Remuneration Committee may be convened by any of its members or by the Secretary. The quorum for transaction of business by the Remuneration Committee shall be any three members. The Remuneration Committee shall operate by majority decision. In the case of an equality of votes, the chairman of the Remuneration Committee shall be entitled to an additional or casting vote in addition to any other vote he may have.
- 7 Notice of each meeting (confirming the venue, date and time, and an agenda of business to be discussed) shall, unless agreed by all members of the Remuneration Committee, be sent to each member of the Remuneration Committee and all other non-executive directors of the Company not less than three days before the meeting. Decisions taken at a meeting where proper notice has not been given in accordance with these terms of reference shall be invalid.
- 8 The Company’s Chief Executive Officer will normally be invited to attend meetings of the Remuneration Committee but will not participate in discussions relating to his own remuneration. Others may be called upon to attend and shall be able to speak only by prior arrangement with the chairman of the Remuneration Committee.
- 9 The Secretary shall maintain a written record of all proceedings and decisions of the Remuneration Committee which shall be circulated to all members of the Board before or during the next Board meeting.
- 10 The chairman of the Remuneration Committee may and shall (if required by the Board) attend the Annual General Meeting and any meeting of the membership of the Company to answer questions on remuneration arrangements and incentive schemes.
- 11 The Remuneration Committee may at the Company’s expense (in accordance with the Company’s Guidelines for Independent Professional Advice) directly employ the services of such external legal or other professional advisors (including independent remuneration consultants), or otherwise commission such reports or surveys, as it deems necessary to fulfil its responsibilities.

- 12 The Remuneration Committee may investigate any matter within its terms of reference and is authorised to seek any information it requires from the Company and its directors and group employees (all employees being directed to co-operate with any such request from the Remuneration Committee) in order to fulfil its role.
- 13 Members of the Remuneration Committee shall normally be expected to attend meetings of the Remuneration Committee in person to the extent this is reasonably practicable. Subject to this, members of the Remuneration Committee may appoint an alternate director in accordance with the Company's Articles of Association to sit in their place and perform their functions at any meeting of the Remuneration Committee, provided such alternate director is a non-executive director of the Company.

### **The role of the Remuneration Committee**

- 14 The Remuneration Committee shall observe and act in accordance with the Incentive Policy. The Remuneration Committee shall exercise its powers and discretions in accordance with the Incentive Policy for the purpose of:
  - 14.1 determining the Company's framework for the remuneration and incentivisation of all executive directors of the Company and its significant subsidiaries and the Senior Executives (as defined below); and
  - 14.2 determining specific remuneration packages (including, without limitation, benefits by way of gratuities, pensions and other superannuation benefits) and compensation packages on employment or early termination of office for each of the executive directors of the Company and its significant subsidiaries (save in respect of the termination of employment of the Chief Executive Officer where Significant Financial Failure (as defined in the Co-operation Agreement dated 27 June 2002) has occurred triggering the Termination Right (as defined in the Co-operation Agreement dated 27 June 2002)) and each of the Senior Executives.

The Remuneration Committee shall determine in its absolute discretion whether a subsidiary of the Company is significant for the purposes of these terms of reference.

- 15 "**Senior Executives**" means, for the purposes of these terms of reference, those persons identified as such in the Incentive Policy from time to time.
- 16 The Remuneration Committee shall not discuss, or pass resolutions in respect of, the remuneration of, or the terms of any consultancy agreement with, any non-executive director (including, for the avoidance of doubt, the members of the Membership Selection Panel) which shall be a matter for the Board as a whole, subject to the provisions of the Articles of Association.

- 17 The Remuneration Committee shall take into consideration any remuneration policy and such factors as the Board may direct and other such factors that it deems necessary.
- 18 The Remuneration Committee, in carrying out its duties under these terms of reference, will aim to give the executive directors of the Company and its significant subsidiaries and each of the Senior Executives every encouragement to enhance the Company's performance and to ensure that they are fairly, but responsibly, rewarded for their individual contributions. Without prejudice to the generality of these terms of reference, the Remuneration Committee will:
- consult with the Chairman of the Board and/or the Chief Executive Officer in formulating its remuneration policy and when determining specific remuneration packages (provided that the Remuneration Committee shall not consult with the Chief Executive Officer in respect of his own remuneration);
  - keep the Chairman of the Board and/or Chief Executive Officer fully informed of its actions;
  - review the terms of the service agreements of the executive directors of the Company and its significant subsidiaries and the employment contracts of the Senior Executives;
  - in considering specific remuneration packages for executive directors of the Company and its significant subsidiaries and each of the Senior Executives, determine all taxable benefits including basic salary, any benefits in kind, any annual bonuses, participation in any long term incentive plans, any gratuity, pension or other superannuation entitlements and any termination and compensation payments;
  - ensure that the chairman or another member of the Remuneration Committee is available to answer questions on remuneration principles and practice at the Annual General Meeting of the Company;
  - determine the nature and range of targets for any performance related incentive schemes operated by the Company;
  - oversee any major changes in employee benefit structures throughout the Company;
  - prepare and agree an Incentive Plan in accordance with the Incentive Policy;
  - liaise with the Board in relation to the production of the Board's annual remuneration report.

### **Changes to these terms of reference and the Incentive Policy**

- 19** Subject to the Company's Articles of Association, the Remuneration Committee may from time to time, with the prior written consent of the Special Member but otherwise in its absolute discretion, make any changes it considers appropriate to these terms of reference or to the Incentive Policy.

Adopted by the Board of Network Rail 19 March 2003