

# Annual Incentive Plan 2016-2017



- Introduction 3
- Who can participate and potential awards 4
- National scorecard 4
- How the structure works 5
- How the results impact individual bonus payments 6
- Bonus process at a glance 6
- Receiving your bonus 7
- Review of overall performance 7
- AIP rules 8-9

All employees have the opportunity to share in Network Rail’s success. The Annual Incentive Plan (AIP) uses a mix of national business area and personal objectives (goals) to determine individual awards. The AIP is designed to enable participants to be able to clearly identify and establish how they can influence the performance of the organisation and as a result their potential awards.

The AIP is designed to:

- Reward employees for achieving national, individual and, if appropriate, business specific and/or functional objectives (goals)
- Link the interests of employees to those of Network Rail as a whole and its stakeholders and customers
- Emphasise that safety, train performance and financial performance go hand in hand
- Reinforce the company strategy and key objectives (goals)
- Provide an incentive to improve results and reinforce the company’s performance culture





## Who can participate and potential awards

The AIP applies to employees on a Network Rail contract paid through payroll in the following bands. Executive Band and Band 1 employees have a proportion of their bonus payment deferred for 2 years.

| Eligibility*   | Maximum Potential (% of salary or £) |
|--|--------------------------------------|
| Executive Band   | 50%**                                |
| Band 1   | 40%***                               |
| Band 2   | 30%                                  |
| Band 3   | 20%                                  |
| Band 4 – Property  | 20%                                  |
| Band 4 – Local Operations Manager  | 15%                                  |
| Band 4 – Line Manager with 4 or more direct reports at the end of the scheme year. | 10%                                  |
| Band 4 – Other   | £3,000                               |

\* Employees can only participate in one bonus scheme at a time. All bonus scheme documents can be found on Network Rail's intranet, Connect..

\*\* In place of an LTIP arrangement a payment of the same amount will be deferred and paid in 2019

\*\*\* An additional payment equal to half the outturn payment (maximum of 20% of salary) will be deferred and paid in 2019



## National scorecard

The AIP is based on a national scorecard that gives equal weighting to safety, operational performance and financial performance. The national scorecard determines the overall scale of payout. The performance is linked to all employees within Network Rail who are eligible for AIP and underpins all bonus payments. To view the national scorecard or to find more information, visit <http://connect/performance/default.aspx>

If the national scorecard result is less than 20%, there will be no bonus payout for the Annual Incentive Plan.

Depending on your personal performance and the strategic business unit results, bonus awards can be increased or decreased. See how the structure works on page 5.

### Points to note

- The performance measures on the national scorecard stand alone and each is calculated independently; the total bonus payable is the sum of each of the six performance areas added together
- No payment will be made in respect of any performance measure which fails to exceed the minimum level of performance
- Achievement between the minimum performance level and the target performance level will be calculated on a pro rata basis; as will achievement between the target performance level and the maximum
- Evidence of safety under reporting would result in the outcome of the safety measures being reviewed and reducing performance accordingly including potentially to zero

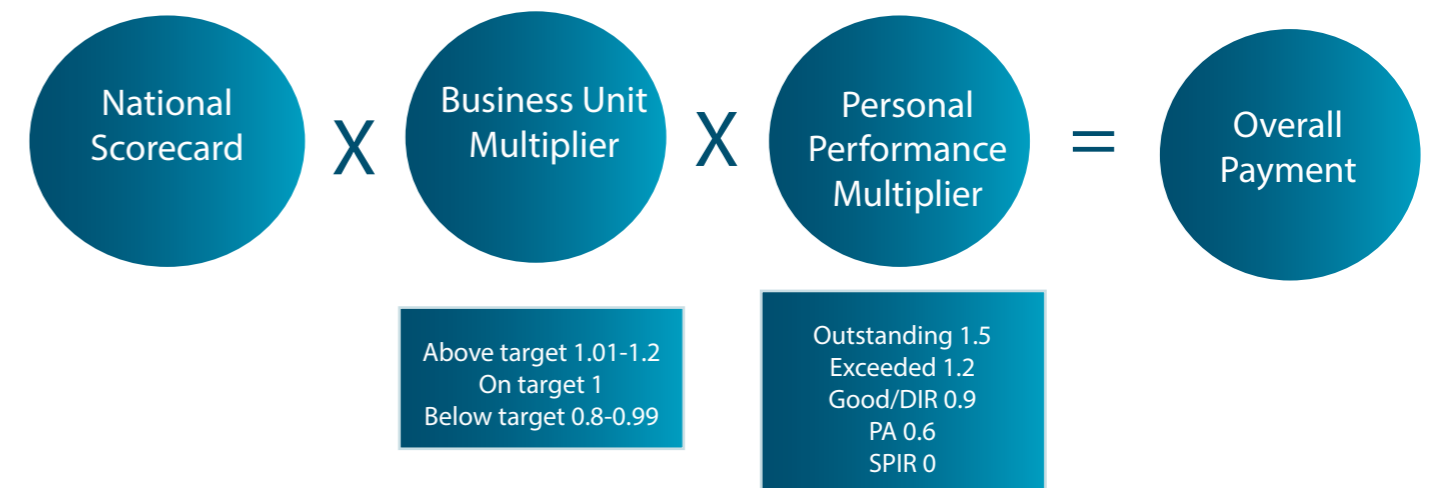


## How the structure works

Network rail needs to be much more focussed directly on customer needs and one way we are now doing this is by aligning our targets and priorities much more closely with those of the local and national train and freight operating companies, route by route.

Forty percent of each route scorecard is now dedicated to locally driven customer-based performance measures. The remaining sixty percent of each scorecard will continue to focus on nationally set measures that are important wherever you are. They include safety, enhancement delivery, asset management and financial elements. The national scorecard will be an aggregation of all the route scorecards.

These changes will help us to put customers even closer to the heart of how we operate here at Network Rail and help to develop a single-minded focus on the things that matter to train operators and our customers.

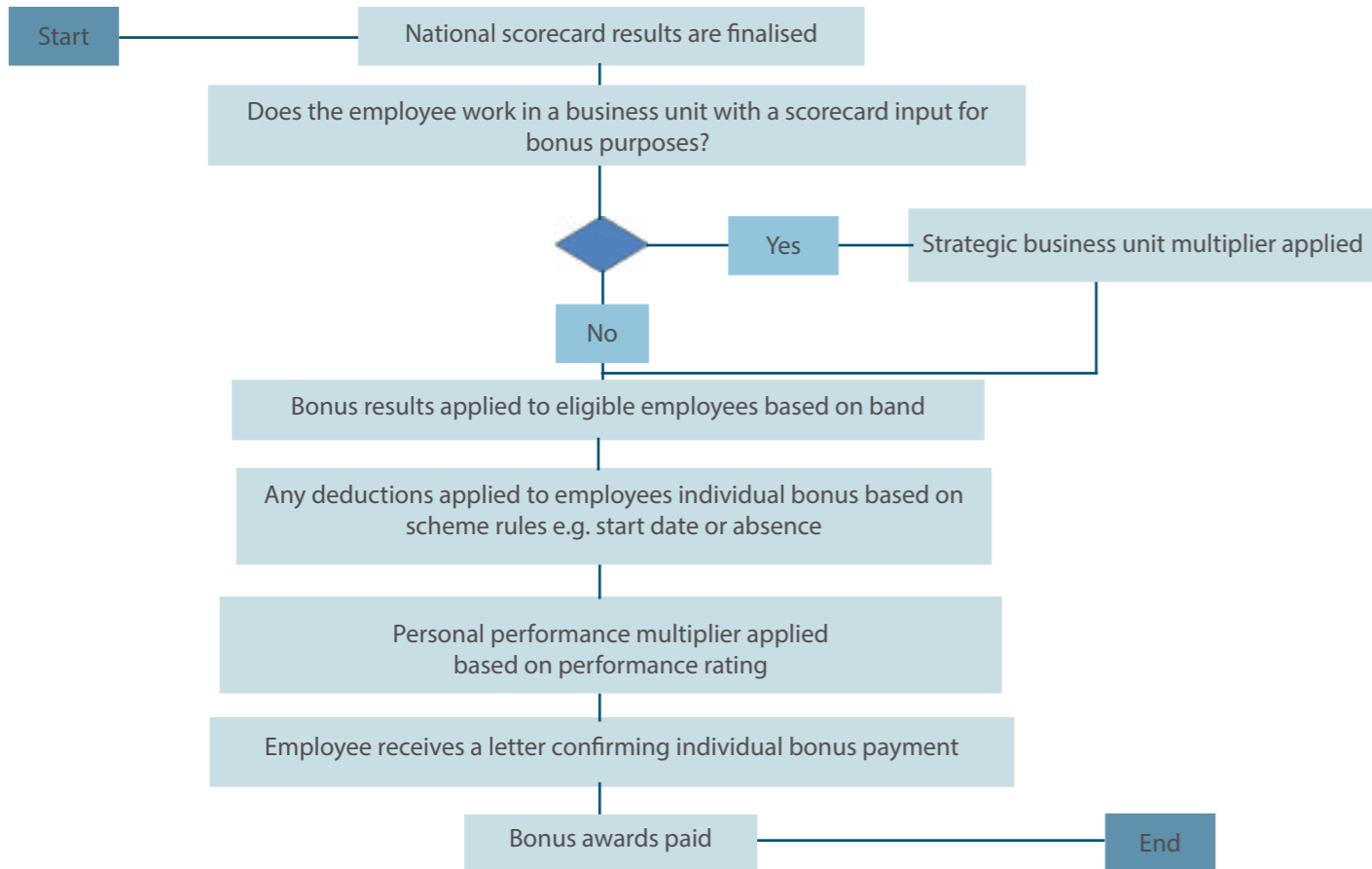


The business unit multiplier will be based on the results for the business unit measures. For results at minimum performance level the multiplier will be x 0.8, for results at target performance level the multiplier will be x 1, and for results at maximum performance level the multiplier will be x 1.2. For results in between performance levels the multiplier will be calculated on a straight line basis.

Functions that do not have a scorecard input for bonus purposes will have the personal performance multiplier applied to the national scorecard out-turn.



## How do the results impact individual bonus payments?



## Bonus process at a glance

(1 April 2016 to 31 March 2017)

| MARCH   | JULY/AUGUST   |
|---|---|
| Performance targets for the year are agreed for each business area by Finance and the business. | Bonus awards are paid to eligible employees, if applicable.   |
| Performance results finalised at the end of the performance period.                             | Performance is measured throughout the scheme year against targets.   |
| Final Bonus award signed off. (See review of overall performance).                              | Performance against key business measures will be published on Connect each period. Performance results finalised at the end of the performance period. |
| Bonus results are published on Connect.   |   |



## Receiving your bonus

The bonus payment date will be announced on Connect after the end of the financial year (31 March 2017) and once the outcome against performance measures have been finalised. It is likely to be paid around July/August 2017 depending on payroll dates and payroll processing dates.



## Review of overall performance

The Remuneration Committee will review the results of the scorecard at the end of the scheme year and will take into account all factors, including overall business performance and safety. The Remuneration Committee may then reduce/ increase the overall payment to take account of such factors; subject to its obligation to achieve the overriding purpose of the scheme.





## AIP rules

The AIP does not form part of your contractual terms and conditions. You will be eligible to receive payment in accordance with the following rules:

| Category  | Type   | Description   |
|---|--|---|
| General   | Salary basis   | Any potential bonus payments will be based on your substantive salary at 31 March 2017.   |
|   | Scheme year  | The scheme year is 1 April 2016 - 31 March 2017.  |
|   | Additional eligibility requirement for band 4 line managers                  | Eligibility for band 4 line managers bonus is where you undertake the direct line management of 4 or more employees (this is based on number of positions reporting in to you in the organisation chart at the end of the scheme year, 31 March 2017).  |
|   | Transfers between different eligible bands of the AIP                        | Where you transfer between AIPs, payment due in respect of any total bonus payment will be pro rated based on the number of calendar days in each respective AIP.   |
| Payment   | Payment date   | Payment date will be announced on Connect after the 31 March 2017 once the outcome against performance measures has been finalised. Payments to qualifying leavers will be made at the same time as they are made to existing employees.  |
|   | Tax, NI and Pensions   | Payments under the scheme are subject to statutory deductions and are not pensionable.  |
| New joiners, changes to business area & part time working | New joiners  | If you join on or before 28 February 2017 you will qualify for a pro rata payment based on the number of calendar days employed in the scheme year.   |
|   | Changes to business area   | In the event of moving to (including going on secondment to) the same, lower or higher band or change of business area during the scheme year, payment due in respect of any total bonus payment will be pro rated on the basis of calendar days in each respective band/ business area.  |
|   | Part time working  | Bonus payments will be calculated on a pro rata basis based on the weekly full time equivalent contractual hours for the role and your number of contractual hours. In the event your hours change during the scheme year, bonus payments will be calculated on a pro rata basis based on the number of calendar days for each set of contractual hours.  |
| Absence   | Absence from work  | If you are absent for 20 or more working days your participation in the scheme will be maintained, however your bonus payment will be subject to a deduction based on the total number of working days you have been absent for. Working days are calculated on the basis of a standard 5 day working week (dependant on role, this could include rostered weekend working, but not rest days). If you are absent due to maternity, adoption, paternity, parental leave or shared parental leave, the first 20 working days will not form part of the reduction. If you are absent due to jury service, volunteer leave or Territorial Army leave this will not trigger an absence reduction. |
| Individual performance                                    | Performance & disciplinary   | No payments will be made to you if you are assigned a performance rating of 'significant performance improvement required'. If you are rated 'partially achieved' you will be eligible for a bonus payment but this will be reduced in accordance with the personal performance modifier. The company reserves the right to withhold bonus payments from participants that are the subject of formal disciplinary action. We will not withhold payment if under investigation.  |
|   | Industrial action  | The underlying principle of the scheme is to reward employees for the achievement of the company's performance targets. As a consequence, if you take part in industrial action during the performance period you will put your eligibility to receive all or part of any bonus payment at risk. For every shift where you take part in industrial action your bonus payment will be reduced by 20% prior to any individual performance distribution (if applicable).   |
| Leavers   | Terminations of employment (e.g. resignations, any retirement and dismissal) | You are only entitled to payment if you are in Network Rail's employment on 30 June 2017 and have not commenced your contractual notice period before the end of the performance period (31 March 2017).  |
|   | Ill health severance & death in service                                      | If you have left employment due to ill health or severance you or your nominees will be eligible to receive a bonus payment, any payment made will be pro rated based on the number of calendar days employed in the scheme year. If you do not have a performance rating, a rating of 'Good' will be awarded for bonus calculations. This also applies in the case of employees who have died in service.  |
|   | Redundancy   | If you leave under redundancy or TUPE transferred out you are eligible to receive a bonus payment, any payment made will be pro rated based on the number of calendar days you were employed in the scheme year. If you do not have a performance rating, a rating of 'Good' will be awarded for bonus calculations.  |



## AIP rules

| Category                  | Type   | Description   |
|---------------------------|--|---|
| Band 1's & Executive Band | General eligibility  | For band 1 participants the maximum bonus is 40% with a payment equal to half the outturn up to 20% of salary deferred for two years. For executive bands the maximum is 50% with a payment of equal amount deferred for two years.   |
|                           | Payment date   | For band 1 two thirds and for executive bands a half of the overall payment will be paid in line with the payment date in 2017.   |
|                           | Deferred payment   | You are only entitled to the deferred payment if you received the first payment. The amount of any deferred bonus payment will be confirmed in writing and will become payable to you after two calendar years. The payment date will be the same date as any bonus payments due after the end of the performance period 31 March 2019.   |
|                           | Deferred payment for leavers including resignations  | You are only entitled to the deferred payment if you received the first payment and if you are in Network Rail's employment on the 30 June 2019 and have not commenced your contractual notice period before the end of the deferred period (31 March 2019). The payment date will be the same date as any bonus payments due after the end of the performance period 31 March 2019.  |
|                           | Deferred payment for leavers including redundancy, retirement, ill health severance and death in service | If you have received the first payment and leave for any of the reasons below, the payment date will be the same date as any bonus payments due after the end of the performance period 31 March 2019. <ul style="list-style-type: none"> <li>• Redundancy</li> <li>• Ill health severance</li> <li>• Retirement (at normal pension age in accordance with your pension scheme membership and if not in a pension scheme, then 65.)</li> </ul> If you received the first payment and die in service, your nominees will be eligible to receive the deferred service bonus payment at the same time as any final payments. |

\* If you consider that you have a disability that may cause absence from work and need reasonable adjustments please refer to the reasonable adjustment policy.



The Scheme has been prepared so that it complies with Condition 16 of Network Rail's network licence, and is aligned with the Incentive Policy referred to in the Articles of Association of Network Rail. This document provides the framework and rules for the operation of the Scheme for the financial year 2016-17.