

## **Network Rail Limited (the “Company”)**

### **Terms of Reference for**

### **the Nomination & Remuneration Committee of the Board**

#### The role of the Committee

- 1 The Committee may investigate or comment on board appointments, board and senior executive remuneration (or any other related matters that are referred to it or as may appear to it to be necessary), culture and diversity.
- 2 The activities of the Committee shall include:

#### **Remuneration matters**

- a) determine 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)
- b) develop and, at least every three years, review and approve the Remuneration Policy which policy shall cover all aspects of executive director remuneration as required by legislation and corporate governance from time to time, (the “Remuneration Policy”). Any changes to the Remuneration Policy must be agreed by the Special Member and the Chief Secretary to HM Treasury
- c) determine specific remuneration packages (including, without limitation, benefits by way of gratuities, pensions and other superannuation benefits) for each of the executive directors of the Company and its significant subsidiaries. The Committee shall determine in its absolute discretion whether a subsidiary of the Company is significant for the purposes of these terms of reference
- d) develop and, at least every three years, review and approve a remuneration policy for Senior Executives which shall cover all aspects of Senior Executive remuneration (the “Senior Executive Remuneration Policy”). Individual Senior Executive pay and other remuneration terms shall not require specific approval by the Committee unless such pay and remuneration are outside the parameters of the then Senior Executive Remuneration Policy. Save for the occasions where any individual salary of a Senior Executive requires approval from time to time by the Special Member and/or the Chief Secretary to HM Treasury because it exceeds the relevant higher HMT threshold, the individual salary must be first approved by the Committee.
- e) prepare and agree the terms of any Incentive Plan or Plans in accordance with the Remuneration Policy and Senior Executive Remuneration Policy (the “Incentive Plan”)
- f) evaluate the Company’s performance against the targets and agreed objectives applicable to the preceding fiscal year and to determine any performance related payments due to Executive Directors under the Incentive Plan in respect of that fiscal year

- g) as and when required, and at least every two years, review and consider the Company's pension provision in relation to the relevant group of executives and approve the associated element of the pension strategy
- h) "**Senior Executives**" means, for the purposes of these terms of reference, those persons who, from time to time, receive an annual basic salary above the relevant lower HM Treasury threshold and any other person and/or job band so determined by the Remuneration Committee

The 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 Committee will in determining its proposals on (1) the Company's Executive Director Remuneration Policy; (2) the Company's Senior Executive Remuneration Policy; and (3) specific salaries for executive directors:

- consult with the Chair of the Board and/or the Chief Executive Officer (provided that the Committee shall not consult with the Chief Executive Officer in respect of his or her own remuneration);
- seek the Special Member's approval of the Executive Director Remuneration Policy and any material changes to the Senior Executive Remuneration Policy.
- seek approval from the Special Member and the Chief Secretary of HM Treasury of the Committee's proposals on the salaries of executive directors;
- in considering specific remuneration packages for executive directors of the Company and its significant subsidiaries, determine taxable benefits including any benefits in kind, any annual performance related pay, participation in any long-term incentive plans, any gratuity, pension or other superannuation entitlements and any termination and compensation payments, provided always that they are in line with the agreed Remuneration Policy;
- keep the Chair of the Board and/or Chief Executive Officer fully informed of its actions;
- 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;
- liaise with the Board in relation to the production of the Board's annual remuneration report.

#### **Board appointment, effectiveness and related matters**

- i) evaluate the balance of skills, knowledge, experience and diversity on the Board which shall include:

- establishing a process for annually reviewing directors' performance, and to provide input to the chair of the Board, who is charged with the responsibility of carrying out such reviews;
  - reviewing and making recommendations to the Board at least annually on the performance and effectiveness of the Board;
  - Supporting the senior independent director in his evaluation of the chair of the Board; and
  - reviewing at least annually the performance of each of the Board committees and to bring forward recommendations to improve their effectiveness where appropriate
- j) having regard to the Company's Articles of Association, review regularly the size, structure and composition of the Board and make recommendations to the Board with regard to any changes
- k) have regard to the requirement of the Company's Articles of Association that the number of non-executive directors should exceed the number of other directors
- l) before any appointment is made by the Board, evaluate the balance of skills, knowledge, experience and diversity on the Board, and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment including the time commitment expected; when identifying suitable candidates, the Committee shall:
- (i) use open advertising or the services of external advisors to facilitate the search;
  - (ii) consider candidates from a wide range of backgrounds; and
  - (iii) consider candidates on merit and against objective criteria with due regard for the benefits of diversity on the Board, including gender, social and ethnic backgrounds, cognitive and personal strengths, taking care that appointees have enough time available to devote to the position
- m) satisfy itself that on appointment to the Board that an individual has sufficient time to undertake the role and review their commitments, considering any business interests that may result in a conflict of interest and notify the Board before appointment (any changes to the director's commitments should be reported to the Board as they arise)
- n) assist the Board in identifying and developing the role of a senior independent non-executive director
- o) direct the Secretary on behalf of the Board to formally write to any appointees, detailing the role and time commitments and proposing an induction plan produced in conjunction with the chair of the Board
- p) oversee the induction programme for new directors and continuing education for all directors including making recommendations on methods to improve directors' knowledge of the Company's activities and their responsibilities as directors
- q) assess and articulate the time needed to fulfil the role of chair of the Board, senior independent director and non-executive director, and undertake an annual performance evaluation to satisfy itself that all members of the Board have devoted sufficient time to their duties
- r) review annually the time requirements of the Company upon each non-executive director and the ability of that director to fulfil such requirements

- s) work and liaise as necessary with all other Board committees

### **Culture & Diversity**

- t) promote the desired culture of the company
- u) monitor and assess culture to satisfy itself that behaviour throughout the business is aligned with the Company's values
- v) establish a method for gathering the views of the workforce
- w) take an active role in setting and meeting diversity objectives and strategies for the Company, and monitoring the impact of diversity initiatives
- x) consider policies that have an impact on the experience of the workforce and drive behaviours

3 The Committee shall also make recommendations to the Board concerning:

- formulating plans for succession planning for appointments to the Board and other senior executives, taking into account the challenges and opportunities facing the company, and the skills and experience needed on the Board in the future;
- recommend qualified directors for membership on the various committees of the Board;
- the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required; and
- the appointment and re-appointment of any individual as an executive director or a non-executive director having regard to best corporate governance practice.

### **Membership**

- 4 The Committee shall be appointed by the Board and shall comprise the Chair of the Board, the Special Director (as defined in the Company's Articles of Association) and at least one other non-executive member, all of whom are directors of the Board of Network Rail Limited. The Chair of the Board shall not participate in discussions relating to future appointments of the Board Chair.
- 5 The Board shall appoint one of the members of the Committee to be its chair (who shall not be the Chair of the Board) and, subject to the normal periodic re-election of directors, shall determine the period for which the chair and other members of the Committee shall hold office.
- 6 The Company Secretary of the Group or the Company Secretary's nominee shall act as secretary of the Committee (the "**Secretary**").

### **Attendees at Meetings of the Committee**

- 7 The Company's Chief Executive Officer will normally be invited to attend meetings of the Committee, but will not participate in discussions concerning their own remuneration.

- 8 Others, including but not limited to independent professional advisers, may be called upon to attend all or part of any Committee meeting and shall be able to speak only by prior arrangement with the chair of the Committee.

#### Proceedings of the Committee

- 9 The Committee shall meet formally at least twice a year and otherwise on such occasions as the Board may request. In addition, a meeting of the Committee may be convened by any of its members, the Secretary, the Chief Executive or the Group General Counsel and Company Secretary if they consider it necessary.
- 10 The quorum for transaction of business by the Committee shall be any two members of the Committee.
- 11 At the request of any member the Committee may at its discretion meet without any executive directors being present.
- 12 The Committee shall operate by majority decision. In the case of an equality of votes, the chair of the Committee shall be entitled to an additional or casting vote in addition to any other vote they may have.
- 13 Notice of each meeting of the Committee (confirming the venue, date and time, and an agenda of business to be discussed) shall be sent to each member and any other invitees, not less than three working days before the meeting (unless determined otherwise by all members). Decisions taken at meetings which have been invalidly called and/or constituted are invalid.
- 14 The Secretary shall maintain a written record of the proceedings and decisions of the Committee.
- 15 The Committee shall conduct or arrange for a periodic evaluation or review of:
- a) the work of the Committee;
  - b) the members of the Committee; and
  - c) these terms of reference
- and propose any recommended changes to the Board.
- 16 The Committee may at the Company's expense (in accordance with the Company's guidelines on independent professional advice) from time to time directly employ the services of such external legal or other professional advisers (including independent remuneration and/or executive search consultants), or otherwise commission such reports or surveys, as it deems necessary to fulfil its responsibilities, including but not limited to obtaining reliable, up to date information about remuneration in other companies of comparable scale and complexity.
- 17 The Committee may investigate any activity within its terms of reference and may invite any persons to its meetings, and is authorised to seek such information from the Group and its directors and employees (all employees and contractors being directed to co-operate with any such request by the Committee), as it deems necessary in order to fulfil its role.
- 18 In accordance with the Articles of Association, the Committee cannot delegate any of its remuneration-related powers (set out in paras 2a to 2i above), authorities or discretions to other committees or to individual directors.

- 19 The Committee shall provide a report to the Board meeting following each Committee meeting.

Other

- 20 The Committee shall approve an annual report of the Committee to the Company's sole Member.
- 21 The Committee shall consider any matter specifically referred to it by the full Board.
- 22 Subject to the Company's Articles of Association, the Committee may from time to time, with the prior written consent of the Special Member, recommend any changes it considers appropriate to these terms of reference.

Adopted by the Board of Network Rail Limited on 18 October 2018