

## **Management Incentive Plan Statement – 2002/03**

This statement is published in accordance with Network Rail's network licence condition 28. It summarises the principal terms of the 2002/2003 Management Incentive Plan (MIP) in respect of the period 3 October 2002 to 31 March 2003.

Given the delay to the timetable of the acquisition against the requirement under the licence condition to produce a plan, the MIP for 2002/2003 provides for an interim incentive regime for the period from 3 October 2002 to 31 March 2003 agreed between Network Rail and the Strategic Rail Authority. A full MIP will be developed for 2003/04 and beyond that will include annual and long term elements.

The MIP applies to two categories of persons - all Executive Directors of Network Rail, and newly appointed executives who joined the Company as part of the Network Rail acquisition of Railtrack PLC. These categories are:

### **Directors**

- John Armitt, Chief Executive
- Iain Coucher, Deputy Chief Executive
- Ron Henderson, Group Finance Director
- Peter Henderson, Project & Engineering Director
- Chris Leah, Safety & Compliance Director

### **Other Executives**

- Director of Corporate Planning & Regulatory Affairs
- Group Director of Government & Corporate Affairs
- Group Head of Legal and Company Secretary
- Head of Funding

### **Principal terms**

The overriding purpose of a management incentive plan is to create the potential to reward outstanding performance based on individual contribution and the overall success of Network Rail in meeting the objectives of the Business Plan.

The MIP comprises the following two key elements:

- Business Performance Plan – Annual Bonus based on business performance reflected in five key measures and an override.
- Personal Performance Plan – Annual Bonus based on personal performance against individual targets and an override.

### **Demanding performance criteria**

Participants are eligible to receive bonuses based on demanding business and personal performance measures. Importantly, no bonus is payable if Network Rail fails to reach the minimum performance level under the Business Performance Plan. Furthermore, the

Remuneration Committee may reduce incentive payments to take account of safety factors or issues.

The plan has two elements relating to business and personal performance and each provides half of the potential incentive payment.

The business and individual performance measures relate directly to the objectives set out by the Regulator in paragraph 3 of Condition 28 of Network Rail's network licence (including the achievement of the purpose of Condition 7 (stewardship) and Condition 25 (code of practice on dealings with dependent persons), compliance with other licence conditions and compliance with conditions of access agreements).

### **Business performance measures**

The amount payable is calculated by reference to performance against the following five output measures:

- **Public performance** (weight 25%) - this is the percentage of trains arriving less than 5 minutes late at final destination or less than 10 minutes late for inter-city operators.
- **Passenger capability** (weight 10%) - this is a volume based measure dependant on the growth in actual passenger train miles and passenger train operators' revenue from fares as reflected in the Regulator's volume incentive.
- **Freight capability** (weight 10%) - this is a volume based measure dependant on the growth in freight train miles and tonne miles as reflected in the Regulator's volume incentive.
- **Financial efficiency** (weight 30%) - this is a measure of the efficiency of operations, maintenance, track renewals and other key central expenditure.
- **Asset stewardship** (weight 25%) – this is an index which reflects the overall status of a number of contributory indicators of the condition of the network.

The Remuneration Committee is also required to consider the Company's net debt and determine, at its discretion, the amount by which any award should be reduced.

### **Personal performance measures**

The amount payable to participants under the Personal Performance Plan – Annual Bonus is calculated by reference to the following five personal measures in accordance with a calculation procedure:

- **Employee engagement** (weight 20%) – a measure of the level of employee engagement with the business of Network Rail across all business areas (good levels of employee engagement are reflected in improved retention of employees, business unit productivity, profitability, customer service and safety performance).
- **Two Departmental KPIs** (weight 20% each) - Business Unit objectives have been set for each executive using the most appropriate KPIs. For example, the Chief Executive and Deputy Chief Executive are incentivised to reduce the level of Network Rail-caused train delays.
- **Financial measure** (weight 20%) - targets in respect of Business Unit Financial Measures have been assigned to each executive.

- **Individual assignments** (weight 20%) - objectives in respect of individual assignments have been set based on the delivery of Action Plans designed to transform Network Rail.

### **Potential Entitlement**

For each measure, the target level of performance is based on assumptions which were discussed between SRA and Network Rail based on available information prior to the acquisition of Railtrack. They were intended to reflect stretch targets for the level of performance which might be achieved in the short term. The potential entitlement if these targets are met is 40% of basic salary.

In each case a minimum level of performance was set below which no incentive payment would be made and a maximum level of performance was set above which no further incentive payment would be made. In the event that the very highest levels of performance are attained, the maximum possible entitlement is 80% of basic salary.

The remuneration potential has been benchmarked against external benchmarks for comparable organisations.

The relevant targets for each of the five business performance measures are shown in the Appendix.

## Appendix: Business Performance Measures and Targets

Output Measure	Weighting %	Measure Trigger Points		
		Minimum Performance Level	Target Performance Level	Maximum Performance Level
Public Performance	25	80.5%	83.5%	85.5%
Passenger Capability	10	£40m	£50m	£65m
Freight Capability	10	£0.6m	£1.3m	£5.0m
Financial Efficiency Index	30	£2,148.0m	£2,088.9m	£2,029.1m
Asset Stewardship Index	25	1.03	0.94	0.90
Award level - total points		20	50	100

### Public Performance

This is the percentage of trains arriving on time over the twelve months to 31st March 2003 as published in National Rail Trends. "On time" is defined as running as planned and arriving less than 5 minutes late at final destination or less than 10 minutes late for inter-city operators.

### Passenger Capability

This is the increase in the Regulatory Asset Base (RAB) arising from the passenger volume incentive introduced by the Regulator at the last periodic review. The volume incentive is equal to five multiplied by:

- growth in franchised passenger train operators' train miles since 2000/01 times 60p; plus
- 3.5% of the growth in franchised passenger train operators' revenues from fares.

### Freight Capability

This is the increase in the RAB arising from the freight volume incentive introduced by the Regulator at last review of freight charging policy. This volume incentive is equal to five multiplied by:

- unanticipated growth in freight train miles times 60p; plus
- growth in thousand gross tonne miles times 75p.

### Financial Efficiency

This is a measure of the efficiency of Network Rail's operating, maintenance and renewal expenditure normalised to take account of changes in the volume of work required. It comprises:

- operating costs: total operating costs in each region, and certain other functions (property, major stations, finance, HR, corporate affairs); plus
- maintenance expenditure: total maintenance expenditure adjusted for the change in equated track miles (a measure of track type, length, traffic tonnage and speed); plus
- renewals expenditure: total track renewals expenditure adjusted for changes in the volume of rail, sleeper and ballast renewed.

## **Asset Stewardship**

A weighted index of six measures of the condition of the network relative to the base year.  
The six measures are those for:

- the number of broken rails (20%);
- level 2 exceedences (20%);
- the number of signalling failures (20%);
- poor track geometry (20%);
- traction power component failures (10%); and
- station condition (10%).