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NETWORK RAIL INFRASTRUCTURE FINANCE PLC

(Incorporated in England and Wales)

£20,000,000,000

Multicurrency Note Programme Supported by a Financial Indemnity of STRATEGIC RAIL AUTHORITY

Under the Multicurrency Note Programme described in this Offering Circular (the “**Programme**”), Network Rail Infrastructure Finance PLC (the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue secured notes (the “**Notes**”) on the terms set out herein, as supplemented by a memorandum supplementary hereto (each a “**Pricing Supplement**”). The Issuer may from time to time issue further Notes on the same terms as existing Notes and such further issued Notes shall be consolidated and form a single Series (as defined in “**Summary of the Programme**”) with such existing Notes. The aggregate nominal amount of Notes will not at any time exceed £20,000,000,000 (or its equivalent in other currencies).

Each Series of Notes, along with certain other financial indebtedness (the “**Indemnified Debt**”) of the Issuer will benefit from a financial indemnity (the “**Financial Indemnity**”) entered into by Strategic Rail Authority (the “**SRA**”), a statutory corporation funded by and subject to directions and guidance from the Secretary of State for Transport (the “**Secretary of State**”). The obligations of the SRA under the Financial Indemnity may, without the consent of holders of any Notes (the “**Noteholders**”), be transferred to any United Kingdom government (the “**UK Government**”) department of state or other body whose liabilities are direct sovereign obligations of the Crown (as that term is or was used in Section 201 of the Transport Act 2000 (the “**Transport Act**”)) (a “**Crown Body**”) (see “**Description of the Financial Indemnity**”). The Financial Indemnity will be entered into between the SRA and HSBC Trustee (C.I.) Limited, acting as the security trustee for the Secured Creditors (as defined in “**Description of the Programme Documents — Security Trust Deed**”) including the Noteholders (the “**Security Trustee**”). The SRA’s obligations under the Financial Indemnity do not constitute a debt or obligations of the UK Government, unless those obligations have been transferred to a Crown Body (the SRA or any subsequent transferee, the “**FI Provider**”).

Each Series of Notes will also benefit from security over certain property of the Issuer, including fixed charges over certain accounts of the Issuer and a floating charge over all its property not subject to fixed charges. Claims against the Issuer by, *inter alios*, the Noteholders will be limited to the Security Assets (as defined in “**Description of the Programme Documents — Deed of Charge**”).

If the net proceeds of the enforcement of the Security Assets are not sufficient to make all payments then due in respect of Notes and Coupons (as defined in “**Terms and Conditions of the Notes**”) and to meet the claims of any other Secured Creditors, the obligations of the Issuer will be limited to such net proceeds. The Issuer will not be obliged to make any further payment in excess of such net proceeds and no debt shall be owed by the Issuer in respect of such shortfall.

The “**Investment Considerations**” section of this Offering Circular sets out risks associated with investing in the Notes.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (“**FSMA**”) (the “**UK Listing Authority**”) for Notes issued within 12 months of this Offering Circular to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s market for listed securities. Admission to the Official List together with admission to trading on the London Stock Exchange’s market for listed securities constitute official listing on a stock exchange. However, unlisted Notes may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the London Stock Exchange’s market for listed securities (or any other stock exchange).

Copies of this document, which comprises listing particulars approved by the UK Listing Authority in relation to Notes to be issued during the period of 12 months from the date of this Offering Circular, have been delivered for registration to the Registrar of Companies in England and Wales as required by Section 83 of the FSMA.

Each Series of Notes in bearer form (the “**Bearer Notes**”) will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**”) and, together with the temporary Global Note, the “**Global Notes**”). Each Series of Notes in registered form will be represented on issue by a certificate in global form (a “**Global Certificate**”). Global Notes and Global Certificates may be deposited on the issue date with a common depositary (the “**Common Depositary**”) on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) or any other clearing system. The provisions governing the exchange of interests in Global Notes for other Global Notes, Definitive Notes (as defined in “**Summary of Provisions Relating to the Notes while in Global Form — Delivery of Notes**”) and Registered Notes (as defined in “**Summary of the Programme — Form of Notes**”) and the provisions governing the exchange of interests in Global Certificates for Certificates (as defined in “**Summary of the Programme — Form of Notes**”), are described in “**Summary of Provisions Relating to the Notes while in Global Form**”.

It is expected that Notes issued under the Programme will be assigned a AAA rating by Fitch Ratings Limited (“**Fitch**”), a AAA rating by Standard and Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc (“**S&P**”) and a Aaa rating by Moody’s Investors Service Limited (“**Moody’s**”) and, together with Fitch and S&P, the “**Rating Agencies**” and each a “**Rating Agency**”). The ratings assigned to the Notes by the Rating Agencies reflect only the views of the Rating Agencies. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or all of the Rating Agencies as a result of changes in or unavailability of, information or if, in the Rating Agencies’ judgement, circumstances so warrant. A suspension, reduction or withdrawal of the rating assigned to any of the Notes may adversely affect the market price of such Notes. Future events, including events affecting the SRA, could have an adverse impact on the ratings of the Notes. For a discussion of certain factors regarding the Issuer, the SRA and the Notes which should be considered by prospective purchasers, see “**Investment Considerations**”. Where any Rating Agency is requested to confirm the then current ratings of the Notes, or to confirm that such ratings will not be downgraded following any particular event, or that a particular act or omission meets certain criteria of the Rating Agency, such confirmation may or may not be given at the sole discretion of the Rating Agency. Furthermore, it may not be possible or practicable for the Rating Agency to give such confirmation or to do so within any particular time period. Confirmation, if and when given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transactions contemplated under the Programme since the date of this Offering Circular. A confirmation of ratings represents only a restatement of the opinions given at the date of this Offering Circular, and cannot be construed as advice for the benefit of any parties to the transactions contemplated under the Programme.

Arranger for the Programme

UBS Investment Bank

Dealers

Barclays Capital

Citigroup

Dresdner Kleinwort Wasserstein

HSBC

Merrill Lynch International

RBC Capital Markets

The Royal Bank of Scotland

UBS Investment Bank

WestLB AG

The date of this Offering Circular is 29 October 2004.

IMPORTANT NOTICE

This Offering Circular comprises listing particulars given in compliance with the listing rules made under Section 74 of the FSMA by the UK Listing Authority.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The SRA accepts responsibility for (i) any statement relating to the SRA and its obligations and, where relevant, the UK Government and Parliament contained in this Offering Circular and (ii) the information contained in the sections of this Offering Circular headed “*Overview of the Transaction — Rail Review*” and “*The Rail Industry in Great Britain*” (the “**SRA Information**”). To the best knowledge and belief of the SRA (which has taken all reasonable care to ensure that such is the case), the SRA Information is in accordance with the facts and does not omit anything likely to affect the import of the SRA Information.

Any reference in this Offering Circular to listing particulars means this Offering Circular excluding all information incorporated by reference. The Issuer and the SRA, to the extent it accepts responsibility for information in this Offering Circular, have each confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSMA or the listing rules made under Section 74 of the FSMA by the UK Listing Authority. The Issuer and the SRA each believes that none of the information incorporated herein by reference conflicts in any material respect with the information included in the listing particulars for which they respectively accept responsibility.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular and the relevant Pricing Supplement in connection with the issue or sale of Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the SRA or any of the Dealers (as defined in “*Summary of the Programme*”) or the Arranger (as defined in “*Summary of the Programme*”). No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular or any Pricing Supplement nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the SRA since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the SRA since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular or any Pricing Supplement comes are required by the Issuer, the SRA, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. In addition, the Issuer has not authorised any offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended (the

“**Regulations**”) of Notes having a maturity of one year or more which have not been admitted to listing in accordance with Part VI of the FSMA. Notes may not lawfully be offered or sold to persons in the United Kingdom within the meaning of the Regulations or otherwise except in compliance with all applicable provisions of the Regulations. For a description of certain restrictions on offers and sales of Notes and on distribution of this Offering Circular or any Pricing Supplement, see “**Subscription and Sale**”.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the SRA or the Dealers to subscribe for, or purchase, any Notes and should not be considered as a recommendation by the Issuer, the SRA, the Dealers or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes.

Purchasers of Notes should conduct such independent investigation and analysis regarding the Issuer, the SRA, the Financial Indemnity, the security arrangements and the Notes as they deem appropriate to evaluate the merits and risks of an investment in the Notes. Purchasers of Notes should have sufficient knowledge and experience in financial and business matters, and access to, and knowledge of, appropriate analytical resources, to evaluate the information contained in this Offering Circular and the relevant Pricing Supplement (if any) and the merits and risks of investing in the Notes in the context of their financial position and circumstances. The investment considerations identified in this Offering Circular are provided as general information only and the Dealers and the Arranger disclaim any responsibility to advise purchasers of Notes of the risks and investment considerations associated therewith as they may exist at the date hereof or as they may alter from time to time.

In connection with any Tranche (as defined in “**Summary of the Programme**”), the Dealer (if any) disclosed as a stabilising agent (the “**Stabilising Agent**”) in the relevant Pricing Supplement or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to “**dollars**”, “**U.S. dollars**” or “**U.S.\$**” are to the lawful currency for the time being of the United States of America, references to “**£**”, “**STG**”, “**pounds**” or “**sterling**” are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland and references to “**euro**” or “**EUR**” are to the single currency introduced in the member states of the European Union which adopted such single currency at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.

Capitalised terms contained in this Offering Circular and defined herein have the meanings given to them on the page indicated in the “**Index of Defined Terms**” contained in Appendix III hereof.

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, any amendment or supplement to this Offering Circular and the most recently published annual and interim accounts of (i) the Issuer; and (ii) the SRA, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents; provided, however, that no such document or modifying or superseding statement shall form part of the listing particulars issued in compliance with the listing rules made under Section 74 of the FSMA. Such documents will be available free of charge from the specified office of the Issuing and Paying Agent.

This Offering Circular shall, save as specified herein, be read and construed on the basis that the documents deemed to be incorporated herein by reference are so incorporated and form part of this Offering Circular.

SUPPLEMENTARY LISTING PARTICULARS

If at any time the Issuer shall be required to prepare supplementary listing particulars pursuant to Section 81 of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this Offering Circular or a further offering circular which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the London Stock Exchange's market for listed securities, shall constitute supplementary listing particulars as required by the UK Listing Authority and Section 81 of the FSMA.

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Note Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Note Trustee (as defined in "*Terms and Conditions of the Notes*") the information required to be provided by Rule 144A(d)(4) under the Securities Act.

TABLE OF CONTENTS

Page	
	OVERVIEW OF THE TRANSACTION 7
	DESCRIPTION OF THE FINANCIAL INDEMNITY 10
	SUMMARY OF THE PROGRAMME 11
	DESCRIPTION OF THE PROGRAMME DOCUMENTS 18
	INVESTMENT CONSIDERATIONS 26
	THE ISSUER 29
	THE NETWORK RAIL GROUP 33
	THE SRA 37
	CAPITALISATION AND INDEBTEDNESS OF THE SRA 45
	THE RAIL INDUSTRY IN GREAT BRITAIN 48
	USE OF PROCEEDS 53
	FORM OF THE FINANCIAL INDEMNITY 54
	TERMS AND CONDITIONS OF THE NOTES 76
	SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM 101
	FORM OF PRICING SUPPLEMENT 106
	TAXATION 115
	SUBSCRIPTION AND SALE 116
	GENERAL INFORMATION 119
	APPENDIX I (COMFORT LETTER FROM SECRETARY OF STATE) A-1
	APPENDIX II (DIRECTIONS FROM SECRETARY OF STATE) A-5
	APPENDIX III (INDEX OF DEFINED TERMS) A-8
	APPENDIX IV (FINANCIAL STATEMENTS OF THE SRA) A-15

CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF
PARLIAMENT AND THE STRATEGIC RAIL AUTHORITY..... A-16

OVERVIEW OF THE TRANSACTION

Introduction

- The Issuer is Network Rail Infrastructure Finance PLC, which has been incorporated for the sole purpose of raising finance including to act as the issuer under the Programme. The Issuer is not a member of the Network Rail Limited (“**Network Rail**”) group or related to or controlled by the SRA.
- The Programme will be administered by Network Rail Infrastructure Limited (“**NRIL**”), the owner and operator of the national rail network of Great Britain.
- Funds will be used to finance the activities of NRIL and to refinance existing debt of the Network Rail group (see further “*Use of Proceeds*”).
- The Notes will be credit supported by the SRA, a statutory body funded by and subject to directions and guidance from the Secretary of State. See further “*Description of the Financial Indemnity*”.
- The Programme is designed to create a class of “railway debt” which does not rely on the credit of any particular network operator. Accordingly, it is structured to survive insolvency of NRIL or the transfer of NRIL’s network licence to any other network operators.

Network Rail Infrastructure Limited

NRIL, a wholly-owned subsidiary within the Network Rail group, is the owner and operator of the national rail network in Great Britain. NRIL’s principal sources of income are: (i) track access income from payments by passenger train operating companies (“**TOCs**”) and freight operating companies (“**FOCs**”) under access agreements; and (ii) direct subsidies from the SRA in the form of revenue grants (“**SRA Grants**”). In addition, NRIL receives some capital grants from the SRA in respect of investment in its infrastructure. (See further “*The Network Rail Group Network Rail Infrastructure Limited Income*”).

Strategic Rail Authority

The Notes and other Indemnified Debt will have the benefit of the Financial Indemnity (see “*Description of the Financial Indemnity*”) from the SRA, which was established by the Transport Act and assumed its full powers on 1 February 2001. The purposes of the SRA are: (i) to promote the use of the railway network in Great Britain for the carriage of passengers and goods; (ii) to secure the development of the railway network; and (iii) to contribute to the development of an integrated system of transport of passengers and goods. The Transport Act provides that the SRA shall act in accordance with directions from the Secretary of State. The Secretary of State may also give guidance to the SRA. On 4 October 2004, the Secretary of State issued directions to the SRA (see further “*Appendix II (Directions from Secretary of State)*”) to enter into the Financial Indemnity, the form of which is reproduced under “*Form of the Financial Indemnity*”.

The SRA’s principal source of funding is grant-in-aid paid by the Secretary of State, subject to the annual Parliamentary supply process. The maximum amount of grant-in-aid available to the SRA and the purposes for which it may be used by the SRA are set by Parliament in the main supply estimate, subject to any provisions approved in supplementary estimates. Additional grant-in-aid is paid by the Scottish Executive (the “**Scottish Executive**”) in respect of Scottish services and can be used for the purposes approved by the Scottish Parliament.

The SRA is a body corporate established by statute and does not have the form of a standard limited company. It is classified for the purposes of UK Government accounting practices as a Non-Departmental Public Body. This means that it is a body which carries out public functions but is not a Crown Body or UK Government

department. The Transport Act specifies that the SRA is not to be regarded as a servant or agent of the Crown and its property is not to be regarded as the property of or held on behalf of the Crown.

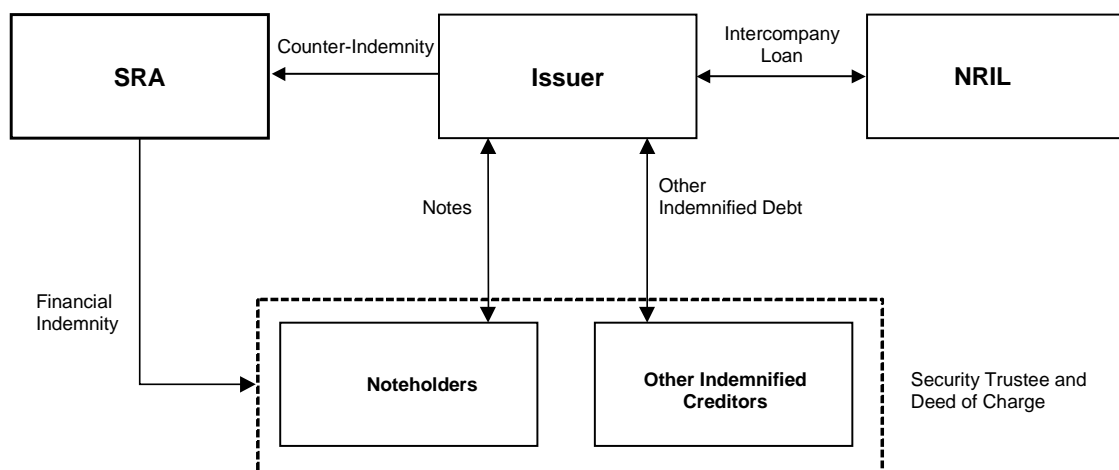
The SRA is governed by a board made up of a chairperson and chief executive and other members, all appointed by the Secretary of State.

Rail Review

On 19 January 2004, the Secretary of State announced that the UK Government was to undertake a review of the railways. The review considered the progress being made with the increased investment in the railways and, amongst other things, the structural and organisational changes needed so the railways can operate more effectively for their customers, with clear lines of accountability and responsibility. The conclusions of the review were set out in a government policy document entitled “The Future of Rail” presented to Parliament by the Secretary of State on 15 July 2004 (the “**Rail Review White Paper**”). In it, the Secretary of State announced, amongst other things, that the SRA is to be wound up and its strategic responsibilities and financial obligations and liabilities transferred to the Secretary of State. The transfer of the SRA’s property, rights and liabilities will be implemented through primary legislation. The Secretary of State is a minister of the Crown and therefore the SRA’s financial obligations (including its obligations under the Financial Indemnity) will, subject to implementation of the relevant legislation, become direct sovereign obligations of the Crown.

The UK Government has confirmed that there will be no change in the existing financial support arrangements of the SRA until the legislation for winding up the SRA has been passed and implemented, and that the SRA’s contractual obligations will continue to be honoured. The UK Government remains committed to the letter of comfort dated 3 March 2003 from the Secretary of State to the SRA (see “**SRA Rating**” below)

Transaction Structure



- The Issuer will issue Notes to the Noteholders.
- Issuance proceeds of the Notes and other Indemnified Debt will be on-lent by the Issuer to NRIL under one or more intercompany loan agreements (collectively, the “**Intercompany Loan Agreement**”). The Issuer will apply payments received from NRIL under the Intercompany Loan Agreement to pay, *inter alia*, interest and principal under the Notes and other Indemnified Debt. However, Noteholders do not ultimately rely on repayment of amounts due under the Intercompany Loan Agreement to service payments due on their Notes.

- Any shortfall in funds available to the Issuer to meet any payment of any Indemnified Debt (including the Notes) is supported by the Financial Indemnity from the FI Provider.
- The Intercompany Loan Agreement between NRIL and the Issuer may be amended or terminated at any time during the existence of the Programme by agreement between NRIL, the FI Provider and the Issuer. No approval of or consultation with any Noteholder or any other holder of any Indemnified Debt will be required in respect of any amendment or termination.
- Pursuant to the Deed of Charge (as defined in “*Summary of the Programme — Security*”), the Issuer will grant security over its assets to the Security Trustee for the benefit of the Secured Creditors (as defined in “*Description of the Programme Documents — Security Trust Deed*”).

(See further “*Description of the Programme Documents*”).

DESCRIPTION OF THE FINANCIAL INDEMNITY

The following summary does not purport to be complete and is taken from and qualified in its entirety by the Financial Indemnity, the full form of which is set out below in “Form of Financial Indemnity”. This summary should be read in conjunction with the aforementioned section and with the section entitled “Investment Considerations”. Capitalised terms used, but not defined, in this section and which are defined in the Financial Indemnity shall bear the same meaning as in the Financial Indemnity.

The Financial Indemnity is an unlimited and irrevocable obligation of the FI Provider to make payments directly to the Security Trustee for the benefit of the Note Trustee (on behalf of the Noteholders) and other Indemnified Creditors.

Debt Service Shortfall Amounts

The Financial Indemnity covers all Debt Service Shortfall Amounts. In relation to Indemnified Debt specified by the Issuer to be prefunded Debt (including, unless otherwise specified in a Pricing Supplement, the Notes), this means shortfalls between (i) amounts due and payable in respect of that Debt; and (ii) amounts standing to the credit of the relevant debt service prefunding account on the date (a “**Trigger Date**”) six or, in the case of payment on a scheduled final maturity date, twenty-one London business days before the relevant due date for payment and available to pay the due and payable amount on that due date.

Claims under the Financial Indemnity

The Security Trustee (or the Administrator on behalf of the Security Trustee) is entitled to deliver a Notice of Claim to the FI Provider in respect of an amount equal to such shortfall on and following, in respect of prefunded Indemnified Debt, the relevant Trigger Date and, in respect of non prefunded Indemnified Debt, the relevant due date for payment. The FI Provider is obliged to pay the Security Trustee the Debt Service Shortfall Amount within five or, in the case of payment on a scheduled final maturity date, twenty London business days of receipt of the Notice of Claim. If, following a Notice of Claim, monies in respect of the amounts claimed are prepaid into the relevant Debt Service Prefunding Account, the amount the FI Provider will be required to pay will be correspondingly reduced.

The FI Provider is obliged to pay Debt Service Shortfall Amounts and other indemnified amounts into an account of the Security Trustee in the relevant currency or other account as notified to the FI Provider by the Security Trustee.

Transfer of the Financial Indemnity

The FI Provider may transfer its rights, obligations and liabilities under the Financial Indemnity to a Crown Body either:

- (i) in accordance with relevant legislation effecting such transfer; or
- (ii) upon satisfaction of certain conditions, by way of a deed of novation substantially in the form set out in Schedule 3 of the Financial Indemnity.

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular.

Issuer:	Network Rail Infrastructure Finance PLC.
The FI Provider:	Strategic Rail Authority (or any subsequent transferee of its obligations under the Financial Indemnity).
Description:	Multicurrency Note Programme.
Financial Indemnity:	All Indemnified Debt, including all Notes, will benefit from a Financial Indemnity entered into by the FI Provider in favour of the Security Trustee who holds the benefit of the Financial Indemnity for, among others, the Note Trustee (on behalf of the Noteholders) and the providers of any other Indemnified Debt. The FI Provider is required to cover, <i>inter alia</i> , any Debt Service Shortfall Amount on any Indemnified Debt.
Size:	Up to £20,000,000,000 aggregate principal amount of Notes outstanding at any one time. For the purposes of calculating the principal amount of Notes outstanding under the Programme from time to time, the principal amount of any Note denominated in any currency other than sterling shall be the equivalent amount in sterling calculated at the rate at which such currency could be converted to sterling as quoted by the Account Bank as at 11:00 am on the relevant issue date.
Arranger:	UBS Limited
Dealers:	Barclays Bank PLC Citigroup Global Markets Limited Dresdner Bank AG London Branch HSBC Bank plc Merrill Lynch International Royal Bank of Canada Europe Limited The Royal Bank of Scotland plc UBS Limited WestLB AG, London Branch

The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to “**Permanent Dealers**” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to “**Dealers**” are to

	all Permanent Dealers and all persons appointed as dealers in respect of one or more Tranches (each a “ Dealer ”).
Administrator:	Network Rail Infrastructure Limited.
Note Trustee:	HSBC Trustee (C.I.) Limited.
Security Trustee:	HSBC Trustee (C.I.) Limited.
Issuing and Paying Agent:	HSBC Bank plc.
Transfer Agent:	HSBC Bank plc.
Calculation Agent:	HSBC Bank plc.
Registrar:	HSBC Bank USA.
Account Bank:	HSBC Bank plc, for all the Issuer’s accounts.
Programme Ratings:	Fitch: AAA. Moody’s: Aaa. S&P: AAA.
	A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the relevant Rating Agency.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), to the Notes of each Series intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a Pricing Supplement.
Issue Price of Notes:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes (<i>as described in “Terms and Conditions of the Notes — Condition 6(e) (Partly Paid Notes)”</i>) may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes:	The Notes may be issued in bearer form only (the “ Bearer Notes ”), in bearer form exchangeable for registered Notes (the “ Exchangeable Bearer Notes ”) or in registered form only (the “ Registered Notes ”). Each Tranche of Bearer Notes and Exchangeable Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date; or (ii) such Notes have an initial

maturity of more than one year and are being issued in compliance with the D Rules; otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**". The provisions governing the exchange of interests in a Global Note for another Global Note, Definitive Notes and Registered Notes and the exchange of interests in each Global Certificate for individual Certificates (each a "**Certificate**") are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

Clearing Systems:

Euroclear, Clearstream, Luxembourg and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Note Trustee and the relevant Dealer.

Initial Delivery of Notes:

On or before the issue date for each Tranche, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes may be deposited with the Common Depositary. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Note Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies:

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency as agreed between the Issuer and the relevant Dealers.

Maturities:

Subject to compliance with all relevant laws, regulations and directives, any maturity, provided that the Issuer may not issue any Notes which mature after 3 October 2052 (the "**Programme Maturity Date**").

Specified Denominations:

Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year or whose issue otherwise constitutes a contravention of Section 19 of the FSMA will have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent)

for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses.

Fixed Rate Notes:

Fixed Rate Notes will bear interest payable in arrear on the date or dates in each year and at the rates specified in the relevant Pricing Supplement.

Floating Rate Notes:

Floating Rate Notes will bear interest determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or
- (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin.

Interest Periods will be specified in the relevant Pricing Supplement.

Zero Coupon Notes:

Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.

Index Linked Notes:

Payments of principal or of interest in respect of Index Linked Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.

Other Notes:

Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Note Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.

Interest Periods and Rates of Interest:

The length of the interest periods for the Notes and the applicable rate of interest or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum rate of interest, a minimum rate of interest, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.

Redemption:

The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year or whose issue otherwise constitutes a contravention of Section 19 of the FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses.

Redemption by Instalments:

The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.

Optional Redemption:

The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part), and if so the terms applicable to such redemption.

Status of Notes:

The Notes will be secured, limited recourse obligations of the Issuer ranking *pari passu* without any preference among themselves and secured in the manner described in “**Terms and Conditions of the Notes — Condition 4 (Security, Priority and Relationship with Secured Creditors)**”. Recourse in respect of the Notes will be limited to the Security Assets. Claims of Noteholders and any other Secured Creditor shall rank in priority to all unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application, and in accordance with the priorities specified in a security trust deed dated on or about the date hereof between, *inter alios*, the Issuer and the Security Trustee (the “**Security Trust Deed**”). See further “**Terms and Conditions of the Notes Condition 4 (Security, Priority and Relationship with Secured Creditors)**”.

Security:

Pursuant to a deed of charge dated on or about the date hereof between the Issuer and the Security Trustee (the “**Deed of Charge**”), the Issuer has granted the Security Trustee fixed and floating security over certain property including:

- (i) a first fixed charge over the Issuer’s debt service prefunding accounts with the Account Bank;
- (ii) a first floating charge over its rights under certain contracts;

- (iii) a first floating charge over certain of the Issuer's other euro, sterling and U.S. dollar bank accounts with the Account Bank; and
- (iv) a first floating charge over all of the Issuer's undertaking and assets which are not the subject of the charges referred to in (i) above.

The Security Trustee holds such security for the benefit of the Secured Creditors (including the Note Trustee on behalf of the Noteholders) under the terms of the Security Trust Deed (See further "*Description of the Programme Documents Other Programme Documents Deed of Charge and Security Trust Deed*").

FI Counter-Indemnity:

The Issuer will indemnify the FI Provider in respect of any amounts paid by the FI Provider under the Financial Indemnity (the "**FI Counter-Indemnity**"). The Issuer's obligations under the FI Counter-Indemnity will be secured by the same security as provided for the Notes and other Indemnified Debt, but will be subordinated under the Security Trust Deed to the claims of the Note Trustee (on behalf of the Noteholders) and any other provider of Indemnified Debt (the "**Indemnified Creditors**"). (See further "*Description of the Programme Documents Security Trust Deed*").

Programme Administration Agreement:

Pursuant to an administration agreement dated on or about the date hereof between the Issuer and the Administrator (the "**Programme Administration Agreement**"), the Administrator will provide certain management and administrative services in respect of the Programme and other Indemnified Debt.

Purchases of Notes:

The Issuer may purchase any Notes at any time. Any Notes so purchased must be cancelled and may not be re-sold. Pending cancellation, any Notes held by or on behalf of the Issuer will not be considered to be outstanding for the purposes of any voting by holders of the Notes.

Cross Acceleration:

If any amount of Indemnified Debt is declared immediately due and payable as a result of a failure by the FI Provider (other than where such failure is caused by administrative or technical error) to pay when due an amount under the Financial Indemnity in respect of such Indemnified Debt, such declaration will constitute an Event of Default under the Notes. See further "*Terms and Conditions of the Notes Condition 10 (Events of Default)*".

Withholding Tax:

Save as may be specified in the Pricing Supplement applicable to any Series of Notes, all payments on the Notes will be made without withholding or deduction for or on account of taxes imposed by the United Kingdom, subject only to the exceptions provided for in "*Terms and Conditions*".

of the Notes — Condition 8 (Taxation)". In the event that any such withholding or deduction is required by law, the Issuer will, save in the circumstances provided for in "*Terms and Conditions of the Notes — Condition 8 (Taxation)*", be required to pay additional amounts to ensure that the holders of the Notes receive the same amount as if no such withholding or deduction had been made.

Further Issues:

The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes (other than the first payment of interest) and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series.

Governing Law:

English.

Listing:

Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the London Stock Exchange or as otherwise specified in the relevant Pricing Supplement. As specified in the relevant Pricing Supplement, a Series of Notes may be unlisted.

Selling Restrictions:

United States, United Kingdom and any other jurisdiction relevant to any Series. See "*Subscription and Sale*".

For the purpose of Regulation S under the Securities Act ("**Regulation S**"), category 2 selling restrictions shall apply.

Notes in bearer form (including Exchangeable Bearer Notes) will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**") unless (i) the relevant Pricing Supplement states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "**C Rules**"); or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.

DESCRIPTION OF THE PROGRAMME DOCUMENTS

The following are summaries of the provisions of the documents relating to the Programme and do not purport to be exhaustive and are subject to the detailed provisions of the documents themselves.

The Notes

The Notes will be constituted by the Trust Deed to be entered into on the date hereof between the Issuer and the Note Trustee and will be limited recourse obligations of the Issuer, secured by the Security taken over the Security Assets. Different types of Notes may be issued under the Programme, including Notes which bear interest at either a fixed or floating rate (which interest will accrue on the principal amount outstanding of the applicable Note) and Notes which are issued at a discount to their nominal amount and which do not bear interest. Unless previously redeemed in full or purchased and cancelled, the Notes will mature at their then principal amount outstanding (or other redemption amount, if different), together with accrued interest thereon, on their respective Maturity Dates, being no later than the Programme Maturity Date. (See further “*Terms and Conditions of the Notes*”).

Note Events of Default

The Events of Default under the Notes of a particular Series will comprise:

- (i) FI Provider Events of Default, being one or more of the following:
 - (a) a failure by the FI Provider to pay any amount due under the Financial Indemnity in respect of any Note of that Series and such failure continues for three Business Days;
 - (b) the insolvency of the FI Provider (including an inability to pay its debts as they fall due, the declaration of a moratorium of any of its indebtedness, the presentation of a petition for its winding-up, administration or dissolution and the appointment of a liquidator, receiver, administrative receiver or administrator in respect of it or any of its assets);
 - (c) a repudiation of the Comfort Letter by the Secretary of State; and
 - (d) the repudiation or cancellation by the FI Provider of the Financial Indemnity or the FI Provider’s obligations under the Financial Indemnity becoming illegal or invalid;provided that, if and for so long as the FI Provider is a Crown Body, only the FI Provider Events of Default referred to in paragraphs (i)(a) and (d) will apply;
- (ii) Issuer Events of Default, being events of default in respect of the Issuer, including any one or more of the following:
 - (a) a failure to pay when due any amount of principal or interest on any Note of that Series and such failure continues for 14 days;
 - (b) a breach by the Issuer of any other obligation under the Notes or the other Programme Documents and such default is materially prejudicial to the Noteholders and incapable of remedy within 60 days; and
 - (c) insolvency or winding up of the Issuer; and
- (iii) a Cross Acceleration Event of Default, being an acceleration of other Indemnified Debt as a result of a failure to pay by the FI Provider under the Financial Indemnity.

(See further “*Terms and Conditions of the Notes – Condition 10 (Events of Default)*”).

Consequences of a Note Event of Default

The occurrence of an Event of Default under one Series of Notes will not necessarily constitute an Event of Default under any other Series of Notes, unless so specified in the Conditions (including the applicable Pricing Supplement). If a particular Series of Notes becomes due and payable prior to another Series of Notes, such Notes may be paid in full even though other Series of Notes that become due and payable at a later date are not repaid in part or in full.

FI Provider Event of Default

If an FI Provider Event of Default occurs in respect of a particular Series of Notes, existing Notes of that Series will be capable of being repayable upon demand by the Note Trustee. The Security Trustee will also be entitled to call for payment of amounts payable to the holders of Notes of that Series by delivering a Notice of Claim to the FI Provider pursuant to the Financial Indemnity.

Issuer Event of Default

If an Issuer Event of Default occurs in respect of a particular Series of Notes, provided that an FI Provider Event of Default has occurred in respect of that particular Series of Notes and is continuing, existing Notes of that Series will be capable of being repayable on demand by the Note Trustee. However, Notes cannot be accelerated on or following an Issuer Event of Default unless an FI Provider Event of Default has also occurred in respect of that particular Series of Notes and is continuing.

Cross Acceleration Event of Default

If a Cross Acceleration Event of Default occurs, existing Notes of all Series will be capable of being repayable upon demand by the Note Trustee. The Security Trustee will also be entitled to call for payment of amounts payable to the holders of Notes by delivering a Notice of Claim to the FI Provider pursuant to the Financial Indemnity.

Early redemption events

In addition to the provisions relating to Events of Default under the Notes, the Notes may be redeemable early in the following circumstances:

- (i) at the Issuer's option pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) in the event that certain tax changes occur in respect of the Notes, upon the giving of not less than 30 nor more than 60 days' notice to Noteholders; and
- (ii) at the Issuer's option pursuant to Condition 6(d) (*Redemption at the Option of the Issuer and Exercise of the Issuer's Options*) upon the giving of not less than 15 nor more than 60 days' notice to Noteholders.

Security Trust Deed

The Issuer, NRIL, the Note Trustee, the Security Trustee, the FI Provider and the other initial Indemnified Creditors will, on or about the date hereof, enter into the Security Trust Deed.

Appointment of Security Trustee and Security Trustee Calculation Agent

Under the Security Trust Deed, the Security Trustee is appointed by each of the Indemnified Creditors and the FI Provider (together, the "**Secured Creditors**") as its trustee in respect of the Security subject to the terms and conditions set out in the Security Trust Deed. In addition, HSBC Bank plc is appointed under the Security Trust Deed as calculation agent for the Security Trustee (the "**Security Trustee Calculation Agent**").

Priorities of Payments and Permitted Payments

Pursuant to the Security Trust Deed, the secured liabilities owed by the Issuer to the Indemnified Creditors rank *pari passu* in right and priority of payment and rank prior to the amounts owed by the Issuer to the FI Provider or NRIL.

On any Payment Date, payments of principal, interest and all other amounts in respect of the Issuer's secured liabilities are to be made by or on behalf of the Issuer to the relevant Secured Creditor in accordance with the terms of the relevant Transaction Document and all amounts due and payable by the Issuer to NRIL under the NRIL Documents shall be made by or on behalf of the Issuer in accordance with the relevant NRIL Document. However, no such amount payable by the Issuer to the FI Provider or NRIL will be paid on any Payment Date until all amounts due and payable on that Payment Date in respect of secured liabilities owed to the Indemnified Creditors (including the Note Trustee on behalf of the Noteholders) have first been discharged in full.

Amendments and Waivers of Documents

Pursuant to the Security Trust Deed:

- (i) the terms of the Deed of Charge and the Financial Indemnity may not be amended or waived without the consent of the FI Provider, the Security Trustee and the Issuer;
- (ii) subject to paragraph (iv) below, the terms of the Security Trust Deed may not be amended or waived without the consent of the FI Provider, the Security Trustee and the Issuer;
- (iii) the Security Trustee may, without the consent of any other Indemnified Creditor, consent to any amendment or waiver of any provision of the Deed of Charge, the Security Trust Deed (together, the "**Security Documents**") or the Financial Indemnity which is, in the opinion of the Security Trustee:
 - (a): (I) to correct a manifest error; (II) of a formal, minor, administrative or technical nature; (III) not materially prejudicial to the interests of any Indemnified Creditor; (IV) made to perfect the Security or to facilitate the exercise of the Security Trustee's powers under the Security Documents; or (V) subject to paragraph (v) below, an amendment or waiver of any provision of the Deed of Charge; and (b) does not infringe any Entrenched Right;
- (iv) the Issuer may, without the consent of any Secured Creditor, make limited changes to the Security Trust Deed, including the designation of any document as a Finance Document or a NRIL Document and the designation of any party as an Indemnified Creditor or Secured Creditor;
- (v) subject to paragraph (iii) above and paragraph (vi) below, the Security Trustee may only give the consent referred to in paragraphs (i) and (ii) above if:
 - (a) in the case of any amendment or waiver of any provision of (I) the Security Trust Deed or (II) the Deed of Charge which releases from the Security any asset of the Issuer (other than as permitted by the Security Documents), such amendment or waiver is approved by a Majority Decision of the Instructing Creditors; and
 - (b) in the case of any amendment or waiver which constitutes a Super Majority Matter, such amendment or waiver is approved by a Super Majority Decision of the Instructing Creditors; and
- (vi) subject to the decision of an Appropriate Expert (see below), the Security Trustee will not give the consent referred to in paragraphs (i) and (ii) above if an Indemnified Creditor (including the Note Trustee for itself or on behalf of the Noteholders) has, prior to the end of the 14-day notice period served an Entrenched Rights Notice in respect of such amendment or waiver and that Indemnified Creditor has not consented to such amendment or waiver. Each Indemnified Creditor has a right (each

an “**Entrenched Right**”) to object to any amendment or waiver (other than those specified in paragraphs (iii) and (iv) above) which would:

- (a) adversely affect the entitlement of such Indemnified Creditor to deliver an Entrenched Rights Notice or shorten the time period in which an Entrenched Rights Notice must be delivered;
- (b) subordinate such Indemnified Creditor’s ranking in right and priority of payment (see “**Priorities of Payments and Permitted Payments**” above) under the Security Trust Deed as against any other Indemnified Creditor;
- (c) result in such Indemnified Creditor ceasing to be an Indemnified Creditor, Secured Creditor, Instructing Creditor or Instructing Creditor Representative;
- (d) change the currency of payment due from the FI Provider under the Financial Indemnity in respect of the Indemnified Debt owing to such Indemnified Creditor;
- (e) result in any Indemnified Debt owing to such Indemnified Creditor ceasing to be Indemnified Debt;
- (f) adversely affect the right of an Indemnified Creditor (or its representative) to instruct the Security Trustee to serve, or the right of the Security Trustee to serve, a Notice of Claim or have the effect of increasing the period of time between service of a Notice of Claim and payment under the Financial Indemnity; or
- (g) reduce the amount payable by the FI Provider to the Security Trustee under the Financial Indemnity.

Instructing Creditors

Each of NRIL, the Issuer and the FI Provider are entitled to propose any amendment or waiver in respect of any Security Document or the Financial Indemnity and any Secured Creditor (via its representative, being in the case of the Noteholders, the Note Trustee) is entitled to propose the taking of enforcement action if and when the Security has become enforceable, the resignation of the Security Trustee and/or the appointment of a successor (each such proposal being a “**STD Proposal**”). Each Instructing Creditor is entitled, through its representative (its “**Instructing Creditor Representative**”), to vote on any STD Proposal, provided that such vote is received by the Security Trustee within a 60 day notice period (the date falling at the end of such notice period being the “**STD Voting Date**”).

The Instructing Creditor Representative in respect of a particular Series of Notes will be the Note Trustee. The Note Trustee will, in respect of each Series of Notes, certify to the Security Trustee the principal amount outstanding of the Notes in such Series and will (depending on the instructions it has received from the holders of the Notes of such Series in accordance with the Conditions and the Trust Deed) on a Series-by-Series basis vote either in favour or against each STD Proposal.

Subject to the Security Trustee receiving an Entrenched Rights Notice, the Security Trustee will implement a STD Proposal:

- (i) following the date on which it has received a Majority Decision (or, in the case of a Super Majority Matter, a Super Majority Decision) from all Qualifying Debt in favour of the STD Proposal; or
- (ii) following the STD Voting Date if, by the STD Voting Date, the Security Trustee has received a Majority Decision (or, in the case of a Super Majority Matter, a Super Majority Decision) from all Voted Qualifying Debt in favour of the STD Proposal.

Accordingly, the effect of paragraph (ii) above is that the Security Trustee can implement an amendment or waiver without the consent of Noteholders provided that a majority or, where applicable, super majority of those who actually voted have consented to such amendment or waiver.

Subject to the decision of an Appropriate Expert to the contrary, if the Security Trustee receives written notice (an “**Entrenched Rights Notice**”) from a Secured Creditor within a 14 day notice period that the STD Proposal affects an Entrenched Right of such Secured Creditor, such STD Proposal will not be implemented without the prior written consent of such Secured Creditor.

If, after receipt by the Security Trustee of an Entrenched Rights Notice, the Issuer, NRIL or the Instructing Creditors (acting together) notify the Security Trustee in writing that the implementation of the relevant STD Proposal does not require the consent of the Secured Creditor which has served the Entrenched Rights Notice, the Security Trustee will appoint an independent third party (an “**Appropriate Expert**”) to determine whether or not the consent of such Secured Creditor is required.

The Security Trustee will notify each Secured Creditor (or its representative, being in the case of the Noteholders, the Note Trustee) of the decision of the Instructing Creditors in respect of any STD Proposal.

The Security Trustee is not obliged to act on the instructions of the Instructing Creditors unless indemnified against all losses, actions, claims, costs and expenses which may arise. Under the terms of the Trust Deed, the Note Trustee is not required to give any instructions to the Security Trustee unless indemnified to its satisfaction. It is likely that any indemnity would have to be provided to the Note Trustee by some or all of the Noteholders.

Notices of Claim and the Financial Indemnity

Pursuant to the Security Trust Deed, the Administrator (acting as agent of the Security Trustee) is obliged to deliver Notices of Claim under the Financial Indemnity in respect of Debt Service Shortfall Amounts relating to the Notes within the requisite time limit. If the Administrator fails to deliver a Notice of Claim when so required, the Security Trustee is obliged (to the extent that it is aware of the relevant amount) to deliver such Notice of Claim.

Limited Recourse and Non-petition

Pursuant to the Security Trust Deed, the obligations of the Issuer under the Finance Documents are limited in recourse to the assets of the Issuer from time to time. Each party to the Security Trust Deed (other than the Issuer and the Security Trustee but including, for the avoidance of doubt and notwithstanding Condition 12 (*Enforcement*), the Note Trustee) also undertakes not to commence insolvency proceedings against the Issuer for a prescribed time period.

It should be noted that it is not necessary for creditors of the Issuer to accede to (and accordingly become bound by) the Security Trust Deed to take the benefit of the Security and the Financial Indemnity provided the Issuer designates them as Indemnified Creditors.

Other Programme Documents

Deed of Charge

The Issuer will, pursuant to the Deed of Charge, grant certain fixed and floating security (the “**Security**”) to the Security Trustee on behalf of itself and the other Secured Creditors over certain of its assets (the “**Security Assets**”) including:

- (i) a first fixed charge over all of its rights, title, interest and benefit under, in and to and proceeds in respect of all sums which may at any time be standing to the credit of the Issuer's debt service prefunding accounts held with the Account Bank (the "**Debt Service Prefunding Accounts**");
- (ii) a first floating charge over all of its assets not otherwise secured under the Deed of Charge, including:
 - (a) certain other accounts held in the Issuer's name with the Account Bank (together with the Debt Service Prefunding Accounts and any other account of the Issuer from time to time, the "**Issuer Accounts**"); and
 - (b) the Issuer's rights under certain contracts to which it is, or will be, a party, including certain hedging agreements, the Trust Deed, the Agency Agreement, the Programme Administration Agreement, the Dealer Agreement and the Intercompany Loan Agreement.

The Security will become enforceable by the Security Trustee upon the earlier to occur of the date on which certain Issuer insolvency events relating to all or substantially all of the Issuer's assets occur and the Full Repayment Date. There is no intention to create further security for the benefit of holders of Notes issued after the first Series. Each further Series of Notes issued by the Issuer will share in the same Security.

The value and effect of the Security is limited, and accordingly, Noteholders should not rely on the Security for timeliness of payment or ultimate recovery of amounts due and payable under the Notes.

Programme Administration Agreement

Pursuant to the Programme Administration Agreement, the Administrator will provide certain management and administrative services in respect of the Programme, other Indemnified Debt and the Intercompany Loan Agreement. Without limitation and subject to the direction of the directors of the Issuer, these include: (i) providing all services necessary to manage the business of the Issuer; (ii) carrying out all acts, executing all documents and giving all instructions where they are required of the Issuer pursuant to the Transaction Documents; and (iii) establishing, operating and maintaining bank accounts in the name of the Issuer in accordance with the Transaction Documents.

Following the occurrence of certain events (including, without limitation, breach by the Administrator of any of its obligations under the Programme Administration Agreement, certain insolvency events affecting the Administrator or following the enforcement of the Security), the Issuer (or the Security Trustee) may terminate the appointment of the Administrator at any time by notice in writing. The Administrator may resign its appointment at any time by giving at least 3 months' notice in writing to the Issuer.

Other than after the enforcement of the Security, no termination of the appointment of, or resignation by, the Administrator can take effect until a new administrator has been appointed. The Issuer shall appoint any such new administrator or, should the Issuer be unable to appoint a new administrator within 30 days of the notice of resignation by the Administrator, the Administrator shall select an entity of recognised good standing and repute.

Intercompany Loan Agreement

Certain proceeds of issuance of each Series of Notes and other Indemnified Debt will be lent by the Issuer to NRIL under the Intercompany Loan Agreement. Pursuant to the Intercompany Loan Agreement, NRIL will be obliged to make payments of interest and principal to the Issuer six (or in the case of principal payable on a scheduled maturity date, twenty one) business days prior to each date on which the Issuer is obliged to make a corresponding payment under the Notes (such payments being made to the Debt Service Prefunding Accounts). In addition, the Issuer also makes available a guarantee facility under the Intercompany Loan Agreement under which the Issuer will provide guarantees and/or indemnities of the financial indebtedness of NRIL or, at the request of NRIL, any other person. Amounts due from NRIL to the Issuer under the

Intercompany Loan Agreement will be subordinated on the insolvency of NRIL to amounts due from NRIL to its other unsecured creditors. All amounts outstanding under the Intercompany Loan Agreement shall be payable on the Full Repayment Date.

The governing law of the Intercompany Loan Agreement is English law.

The foregoing is a summary of the mechanism by which the Issuer currently intends to provide funding to NRIL. The mechanism for funding NRIL may be changed and/or terminated without the consent of the Noteholders or holders of any other Debt and should not be relied on by prospective Noteholders when considering an investment in any Notes.

Miscellaneous Definitions

“Finance Documents” means, *inter alia*, the Notes, the Security Trust Deed, the Financial Indemnity, the Dealer Agreement, any Subscription Agreements, the Trust Deed, the Agency Agreement, the Deed of Charge, certain hedging and bank facility agreements and any other document designated as a Finance Document by the Issuer.

“FI Provider Documents” means, *inter alia*, the Security Trust Deed, the Financial Indemnity and the Programme Participation Agreement.

“Full Repayment Date” means the earlier of:

- (i) the date on which the Security Trustee certifies in writing to the FI Provider that the Security Trustee has received written confirmation from (or on behalf of or in respect of) each of the Indemnified Creditors that the secured liabilities owing to such Indemnified Creditor have been unconditionally and irrevocably paid and discharged in full and that such Indemnified Creditor is not under any further actual or contingent obligation to make advances or provide other financial accommodation to the Issuer under any of the Finance Documents; and
- (ii) the date falling two years after the date on which the secured liabilities owing to all the Indemnified Creditors have been paid and discharged in full and no Indemnified Creditor is under any further actual or contingent obligation to make advances or provide other financial accommodation to the Issuer under any of the Finance Documents.

“Indemnified Creditors” means, *inter alios*, the Note Trustee (acting for itself and on behalf of the Noteholders), the Security Trustee, certain hedge counterparties and bank facility lenders, the Dealers, the Account Bank, the Security Trustee Calculation Agent, the Agents and any other entity which accedes to the Security Trust Deed or which the Issuer notifies to the Security Trustee as being an Indemnified Creditor, provided that none of NRIL, the Issuer, the FI Provider nor any of their respective affiliates may be an Indemnified Creditor.

“Indemnified Debt” means any financial indebtedness of the Issuer owing to an Indemnified Creditor under a Finance Document.

“Instructing Creditors” means, before the Full Repayment Date, the Noteholders, certain hedge counterparties of the Issuer and bank facility lenders and any other Secured Creditor so designated by the Issuer and, after the Full Repayment Date, the FI Provider.

“Majority Decision” means votes representing more than 50% of all Qualifying Debt or, as applicable, all Voted Qualifying Debt.

“NRIL Documents” means, *inter alia*, the Security Trust Deed, the Programme Administration Agreement and the Intercompany Loan Agreement.

“Payment Date” means any date on which any amount is due and payable by the Issuer under the Transaction Documents.

“Qualifying Debt” means the principal amount outstanding under the Notes (excluding Notes held by the Issuer, the FI Provider, NRIL, Network Rail Limited or any of their affiliates), the principal amount of any drawn amounts under a bank facility of the Issuer, the early termination amount payable by the Issuer upon termination of any hedging agreement and any other amount of Indemnified Debt expressed to be Qualifying Debt by the Issuer.

“Super Majority Decision” means votes representing at least 85% of all Qualifying Debt or, as applicable, all Voted Qualifying Debt.

“Super Majority Matter” means:

- (i) any amendment or waiver of the Financial Indemnity (except for a waiver by the FI Provider of any of its rights under the Financial Indemnity);
- (ii) any amendment or waiver of the Security Trust Deed which subordinates, or has the effect of subordinating, the ranking of all the Indemnified Creditors in right and priority of payment under the Security Trust Deed as against either the FI Provider or NRIL;
- (iii) any amendment or waiver of the governing law of any Security Document or jurisdiction thereunder (including any waiver of state immunity);
- (iv) certain amendments to the definition of “Super Majority Decision” or “Super Majority Matter” having the effect of changing the procedure for determining a Super Majority Decision;
- (v) any addition to the list of amendments or waivers to the Security Trust Deed which can be made without the approval of a Majority Decision of the Instructing Creditors; and
- (vi) any amendment or waiver of the non-petition provisions of the Security Trust Deed.

“Transaction Documents” means the Finance Documents, the NRIL Documents and the FI Provider Documents.

“Voted Qualifying Debt” means, in respect of an Instructing Creditor Representative, Qualifying Debt owing to the Instructing Creditor(s) which it represents and in respect of which such Instructing Creditor Representative has voted in accordance with the terms of the Security Trust Deed.

Financial Indebtedness of the Issuer outside the Programme

The Issuer is permitted to incur Debt outside the Programme (including, but not limited to, bank debt, commercial paper, finance leases and interest rate and currency hedging agreements) which may or may not benefit from the Financial Indemnity. The Noteholders do not have any rights to restrict the Issuer incurring additional Indemnified Debt or any other financial indebtedness (together the **“Debt”**) under or outside of the Programme. The occurrence of an event of default under any Debt other than the Notes will not necessarily constitute an Event of Default under the Notes, unless so specified in the Conditions (including the applicable Pricing Supplement). If a particular form of Debt becomes due and payable prior to the Notes, such Debt may be paid in full even though the Notes are not repaid in part or in full.

INVESTMENT CONSIDERATIONS

The following is a summary of certain aspects of the Notes about which prospective Noteholders should be aware. This summary is not intended to be exhaustive and prospective Noteholders should also read the detailed information set out elsewhere in this document and reach their own views prior to making any investment decision. Further, any prospective Noteholder should take its own legal, financial, accounting, tax and other relevant advice as to the structure and viability of its investment.

Credit Support

The Issuer's ability to make payments under the Notes does not depend on it receiving amounts from NRIL under the Intercompany Loan Agreement. To the extent the Issuer has insufficient funds to pay all amounts it owes under the Notes, the holders of Notes will have recourse to the Financial Indemnity. In deciding to purchase the Notes, Noteholders will ultimately be relying on their assessment of the Financial Indemnity and the creditworthiness of the FI Provider. The rating of the Notes is linked directly to that of the FI Provider.

SRA Creditworthiness

The liabilities of the SRA are not those of the UK Government, although the Secretary of State has various controls over the ability of the SRA to incur liabilities, as set out in the SRA's financial framework provided to it under the Transport Act. The SRA has no material sources of income of its own and relies principally on funding provided by the Secretary of State. Such funding has, to date, been provided as grant-in-aid, which is subject to the annual process for approval of UK Government funding by Parliament. The maximum amount of grant-in-aid available to the SRA and the purposes for which it may be used by the SRA are set by Parliament in the main supply estimate. Additional grant-in-aid is paid by the Scottish Executive in respect of Scottish services and can be used for the purposes approved by the Scottish Parliament.

The obligations of the SRA under the Financial Indemnity are treated for the purposes of the SRA's accounting, as contingent liabilities and have been notified to Parliament by the Secretary of State in the normal way. However, as is normal for contingent liabilities, Parliament has not voted on approving such liabilities. The SRA's budget does not include amounts specifically to cover such liabilities. If the Issuer is unable to make payments under the Notes, Noteholders are therefore reliant on additional funding being provided to the SRA by the UK Government at such time as the obligations under the Financial Indemnity become due for payment. The availability of those funds from the UK Government is dependent, in some cases, upon HM Treasury consent and, in all cases, upon Parliament voting funds to the DfT from time to time under the long-established approval procedures which apply to UK Government expenditure.

The report and audited financial statements of the SRA for the year ended 31 March 2004, which take the form of group accounts (the "**SRA Audited Accounts**") were presented on a going concern basis, which implies that the SRA believed that the Department for Transport's (the "**DfT**") future sponsorship and future parliamentary approval for its annual expenditure would be forthcoming until legislation was passed to wind up the SRA, and that the Rail Review White Paper does not change the current basis of preparing the SRA Accounts. After taking into account other known liabilities, the SRA remains of the view that it will receive sufficient funding to discharge its liabilities as they fall due.

The SRA's obligations under the Financial Indemnity are unsecured contingent liabilities of the SRA and rank *pari passu* with all its other unsecured liabilities outstanding from time to time. The SRA has many other contingent liabilities (a number of which are described in "**Capitalisation and Indebtedness of the SRA**"). If one contingent liability relating to Network Rail's funding becomes an actual liability then others may also

become actual liabilities which the SRA may not have sufficient funds to meet without additional funding from the UK Government. The Financial Indemnity imposes no restrictions on the SRA's ability to incur further liabilities or to charge its assets although the SRA has obligations under the Transport Act not to act inconsistently with its financial framework, as referred to above. Subject to the financial framework, there is no restriction on the SRA's ability to transfer or dispose of its assets.

The SRA may be capable of being the subject of insolvency proceedings under the Insolvency Act 1986, as amended or supplemented from time to time (the "**Insolvency Act**"). At the date hereof, the SRA's accounts show a net liability on its balance sheet and therefore the value of the SRA's assets may be less than the amount of its liabilities, taking into account its contingent and prospective liabilities. As a result of its balance sheet position, it may be possible for an application to be made to place the SRA in administration if the court were satisfied that to do so would be likely to achieve one or more of the purposes specified by the Insolvency Act. The making of an administration order would prevent claims against the SRA without the consent of the administrator or the permission of the court. Any delay in enforcement of claims against the SRA may result in payments on the Notes being delayed or not being made at all. If a winding-up order were made against the SRA, no action or proceeding may be proceeded with or commenced without the permission of the court.

The Rail Review White Paper sets out the intention of the UK Government that the financial responsibilities of the SRA (including under the Financial Indemnity) will be transferred, subject to the implementation of primary legislation, to the Secretary of State. See "*Overview of the Transaction – Rail Review*" and "*The Rail Industry in Great Britain – Rail Review*" for further details. However, there can be no guarantee that the proposals as described in the Rail Review White Paper will be implemented in the manner described or at all or within any given timeframe.

Secretary of State Comfort Letter

The Secretary of State states in the letter addressed to the Security Trustee and the SRA and the form of which is reproduced in "*Appendix I – Comfort Letter from Secretary of State*" (the "**Comfort Letter**") that he would intervene in a timely manner to ensure that adequate funds would be made available to meet any financial obligations incurred by the SRA in connection with the Financial Indemnity and that the SRA is in a position to meet its liabilities under the Financial Indemnity on time and in full. In this context the Secretary of State regards it as untenable that, where the SRA is unable to meet its obligations under the Financial Indemnity, he would stand by and do nothing. As a matter of public law, however, the Secretary of State cannot fetter his or his successors' discretion and the Comfort Letter is not intended to do that; it does not create binding obligations and should not be construed as a guarantee by the Secretary of State of the obligations of the SRA nor any undertaking as to the way in which the Secretary of State would exercise his discretionary powers in any particular case. There can, therefore, be no assurance that the support currently expressed for the SRA in the Comfort Letter will not be withdrawn without notice or liability to any Noteholders or any other person.

Noteholder rights subject to the Security Trust Deed

The Notes are subject to the provisions of the Security Trust Deed. The Security Trust Deed contains provisions enabling the Security Trustee to implement various amendments, consents and waivers in relation to the Security Documents and the Financial Indemnity, subject to the Entrenched Rights. (See "*Description of the Programme Documents – Security Trust Deed – Amendments and Waivers of Documents*"). The Security Trustee is authorised to act on the instructions of a Majority Decision (or, in the case of a Super Majority Matter, a Super Majority Decision) of the Instructing Creditors. The Instructing Creditors include the Noteholders, but also the holders of other forms of Indemnified Debt. Accordingly, subject to the Entrenched

Rights, decisions relating to the Financial Indemnity and subordination of claims and binding on the Noteholders may be made by persons with no interest in the Notes and the Noteholders may be adversely affected as a result. (See “*Description of the Programme Documents – Security Trust Deed – Instructing Creditors*”).

Security and Limited Recourse

Any Notes issued constitute a secured, limited recourse obligation of the Issuer. Under the Deed of Charge, the Issuer has secured the Notes by way of first fixed and/or floating charges over the Security Assets. The security created by the Issuer is held by the Security Trustee on trust for the Noteholders and other Secured Creditors.

On enforcement of the Security, although the Notes are full recourse to the Security Assets, in the event that the proceeds of such enforcement are insufficient (after payment of all other claims ranking higher in priority to or *pari passu* with amounts due), then the Noteholders and other Secured Creditors will have no further claim against the Issuer in respect of any unpaid amounts.

Liability under the Notes

The Notes will be obligations solely of the Issuer. The Notes will not be obligations or responsibilities of, or guaranteed by, the UK Government, the SRA, the Note Trustee, the Security Trustee, the Agents, Network Rail, NRIL, the Arranger, the Dealers, or the Account Bank. Furthermore, no person other than the Issuer will accept any liability whatsoever to Noteholders under the Notes in respect of any failure by the Issuer to pay any amount due under the Notes.

Absence of Secondary Market; Limited Liquidity of the Notes

Notwithstanding the fact that an application has been made for the Notes to be admitted to the Official List and for such Notes to be admitted to trading on the London Stock Exchange market for listed securities, there can be no assurance that a secondary market will develop, or, if a secondary market does develop for any of the Notes, that it will provide the holder of the Notes with liquidity or that any such liquidity will continue for the life of the Notes. Consequently, any purchaser of the Notes must be prepared to hold such Notes for an indefinite period of time or until final redemption or maturity of the Notes.

The liquidity and market value at any time of the Notes is affected by, among other things, the market view of the credit risk of such Notes and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets and domestic and international political events.

THE ISSUER

The Issuer

The Issuer was incorporated in England and Wales on 31 March 2004 as a public company with limited liability under the Companies Act with registration number 5090412. The Issuer's registered office is at 40 Melton Street, London NW1 2EE.

The authorised share capital of the Issuer is £50,000 consisting of 50,000 ordinary shares of £1 each. The issued share capital of the Issuer consists of 50,000 shares of £1 each, 2 of which have been fully paid up to £1 and 49,998 of which have been issued at par and paid up as to £0.25. Pursuant to a Declaration of Trust dated 1 October 2004 and made by HSBC Trustee (C.I.) Limited, the entire issued share capital of the Issuer is held upon charitable trust by HSBC Trustee (C.I.) Limited. The registered office of the trustee is at 1 Grenville Street, St Helier, Jersey. The Issuer has no subsidiaries.

The directors of the Issuer and business occupations are:

Name	Other Principal Activities
Fred Maroudas *	Director of Funding, Network Rail, Director of Network Rail CP Finance PLC and Director of Network Rail MTN Finance PLC
Jonathan Eden Keighley	Managing Director of Structured Finance Management Limited
Robert William Berry	Director of Structured Finance Management Limited
James Garner Smith Macdonald	Director of Structured Finance Management Limited

* Network Rail appointed Director

The business address of Jonathan Keighley, Robert Berry and James Macdonald is Blackwell House, Guildhall Yard, London EC2V 5AE. The business address of Fred Maroudas is the same as the registered office of the Issuer.

The Issuer's sole activity is to act as a special purpose financing vehicle including to act as the issuer under the Programme and borrower of other Debt. Since its date of incorporation, the Issuer has not carried on any business or activities other than those incidental to its registration and other matters described or contemplated in this Offering Circular.

Capitalisation

The following table sets out the capitalisation of the Issuer on 27 October 2004:

Shareholders' Funds:

	(£)
Share Capital (50,000 shares of £1 each, 2 of which have been fully paid up to £1 and 49,998 have been partly paid up to £0.25).....	12,502
Total capitalisation	<u>12,502</u>

As at 27 October 2004 the Issuer had no outstanding indebtedness, contingent liabilities or guarantees.

There has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of the Issuer since 27 October 2004.

Financial Statements

Since the date of incorporation, no audited statutory financial statements of the Issuer have been prepared.

The auditor of the Issuer is Deloitte & Touche LLP, whose address is at Hill House, 1 Little New Street, London EC4A 3TR.

The Directors
Network Rail Infrastructure Finance PLC

29 October 2004

Dear Sirs

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular dated 29 October 2004 (the "**Offering Circular**") of Network Rail Infrastructure Finance PLC (the "**Issuer**").

Basis of preparation

The financial information set out in this report, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the unaudited financial statements of the Issuer from incorporation on 31 March 2004 to 27 October 2004, to which no adjustments were considered necessary.

Responsibility

Such unaudited financial statements are the responsibility of the directors of the Issuer who approved their issue.

The Issuer is responsible for the contents of the Offering Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the unaudited financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the accounting records underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Issuer, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Issuer as at 27 October 2004.

Audit. Tax. Consulting. Corporate Finance.

Member of
Deloitte Touche Tohmatsu

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675. A list of members' names is available for inspection at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom, the firm's principal place of business and registered office. Deloitte & Touche LLP is authorised and regulated by the Financial Services Authority.

1 Balance Sheet

The balance sheet of the Issuer as at 27 October 2004 was as follows:

	Notes	£
Current assets		
Cash at bank and in hand		12,502
Net assets		<u>12,502</u>
Represented by:		
Called up share capital	2.3	<u>12,502</u>
		<u>12,502</u>

2 Notes to the financial information

2.1. Incorporation

The Issuer was incorporated on 31 March 2004. Save for issuing 50,000 ordinary shares with a nominal value of £1 each as described in 2.3 below, entering into the agreements described in the Offering Circular and entering into certain other financial arrangements on the date of the Offering Circular, the Issuer has not yet commenced business, has made up no audited financial statements and has not declared or paid any dividends since the date of its incorporation. Accordingly no profit or loss is presented.

2.2. Basis of preparation

The financial information has been prepared in accordance with applicable UK accounting standards and under the historical cost convention.

2.3. Share capital

The Issuer was incorporated with an authorised share capital of £50,000 comprising 50,000 ordinary shares of £1 each. Two ordinary shares have been issued and fully-paid to £1 each and 49,998 ordinary shares have been issued and partly-paid to £0.25 each. The outstanding £0.75 in respect of each of those partly-paid ordinary shares has not been called up.

2.4. Controlling Party

49,999 shares of the Issuer are held by HSBC Trustee (C.I.) Limited. A nominee for the trustee, HSBC Private Banking Nominee 1 (Jersey) Limited holds one share. All shares in the Issuer are held for charitable purposes.

Yours faithfully

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

THE NETWORK RAIL GROUP

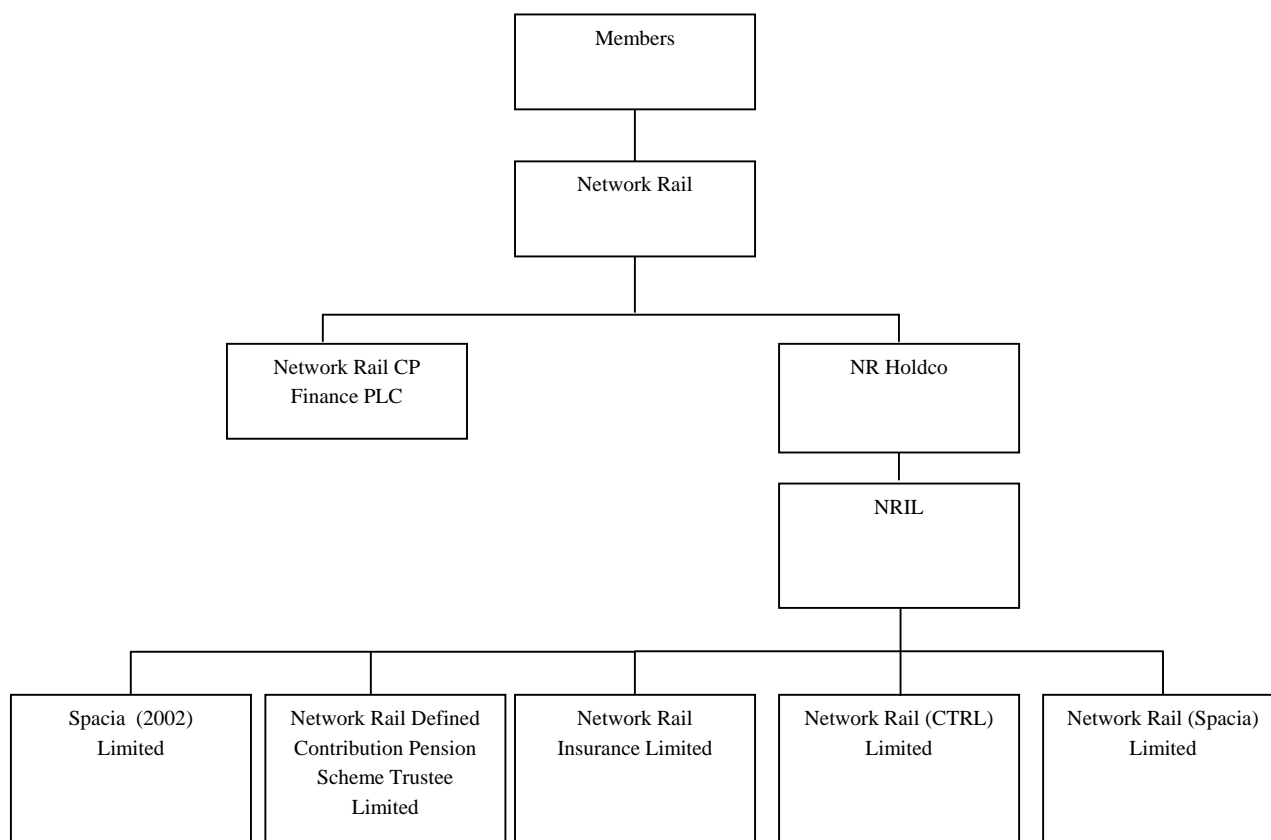
Network Rail Limited

Corporate Description

Network Rail is a private sector, not for dividend company limited by guarantee incorporated in England and Wales on 22 March 2002 under the Companies Act. It was created for the specific purpose of acquiring NRIL and certain other related assets (all of which were acquired by Network Rail on 3 October 2002) and thereafter managing the national rail infrastructure of Great Britain safely, efficiently and economically.

The Network Rail Group

Network Rail, through its wholly-owned subsidiary Network Rail Holdco Limited (“**NR Holdco**”), owns the whole of the issued share capital of NRIL. The group structure, excluding dormant subsidiaries, is as set out below:



NR Holdco was established by Network Rail for the purpose of acquiring NRIL and has no other activities.

Network Rail CP Finance PLC was incorporated for the sole purpose of issuing commercial paper to provide funding for NRIL.

Network Rail Insurance Limited, a company incorporated in Guernsey, provides insurance cover to NRIL as part of NRIL’s overall insurance arrangements.

Network Rail Defined Contribution Pension Scheme Trustee Limited provides the only Company-sponsored pension offered to all new employees of Network Rail.

Network Rail (CTRL) Limited holds a concession to provide station services at St. Pancras station in London following completion of the Channel Tunnel Rail Link (“CTRL”) and is party to an agreement under which it operates and maintains CTRL on behalf of its owner.

Members

As a company limited by guarantee, Network Rail has no shareholders or share capital. Instead, it has members of which there are approximately 100. Each member has a liability to contribute £1 under its guarantee in the event of a winding up of Network Rail. Members fall into one of the following three categories: (i) the SRA; (ii) rail industry members who are rail licence holders or preferred bidders for franchises to provide passenger railway services; and (iii) public interest members who form the majority of members of Network Rail and are chosen by an independent panel from a wide range of stakeholder groups and members of the public.

Distributions

Under Network Rail’s constitution, the distribution of profits or assets to Network Rail’s members is prohibited and any profits of Network Rail are reinvested.

SRA Special Membership Rights

The SRA has special membership rights not available to other members of Network Rail. In particular it has a right to appoint a director to the board of Network Rail (who sits on the remuneration and nomination committees of Network Rail), a right of veto in respect of certain changes to Network Rail’s constitution, a right to requisition a meeting of Network Rail’s members, a right in certain serious circumstances or following a payment being made under the Financial Indemnity to veto the removal of the Chairman and Chief Executive of Network Rail, and, in the event of fundamental financial failure of Network Rail, a right to remove all other members of Network Rail.

Board

Network Rail’s board is comprised of a majority of directors who are non-executive. All of the executive directors have an engineering and/or operations background. The non-executive Chairman of Network Rail is Ian McAllister and the Chief Executive is John Armit.

Network Rail Infrastructure Limited

Corporate Description

NRIL was incorporated in England and Wales under the name Railtrack PLC on 28 February 1994 as a public company limited by shares under the Companies Act with registration number 2904587. NRIL’s registered office is at 40 Melton Street, London NW1 2EE.

On 1 April 1994, almost all of the British Railways Board’s (“**British Rail**”) operational railway infrastructure and some other property, were transferred to Railtrack PLC, at that time a wholly owned subsidiary of Railtrack Group PLC, itself wholly owned by the UK Government. The remaining commercial activities of British Rail were divided into separate businesses and sold or franchised by the UK Government. Railtrack Group PLC was listed on the London Stock Exchange and the UK Government’s shareholding disposed of in a public offering in May 1996.

Upon application to the High Court by the Secretary of State, Railtrack PLC, as a protected railway company under the Railways Act 1993 (as amended by the Transport Act) (the “**Railways Act**”), was placed in railway administration on 7 October 2001, on the grounds that it was, or was likely to become, unable to pay its debts.

On 3 October 2002, the High Court discharged the railway administration order, following an application by the Secretary of State. Network Rail completed its acquisition of Railtrack PLC immediately after the discharge of that order took effect. NRIL was re-registered under the Companies Act as a private company limited by shares on 3 February 2003, and concurrently changed its name from “Railtrack PLC” to “Network Rail Infrastructure Limited”.

The authorised share capital of NRIL is £500,050,200 divided into 50,200,000 ordinary shares of 0.1p each and 500,000,000 redeemable shares of £1 each. The issued share capital of NRIL consists of 50,084,937 ordinary shares of 0.1p each and 160,000,000 redeemable shares of £1 each.

Administrator

NRIL is responsible for administering the Programme on behalf of the Issuer. Its duties include the provision of certain management, administrative, accounting and related services to the Issuer.

Directors of NRIL

The directors of NRIL and their respective business occupations are:

Name	Business Occupation	Other Principal Business Occupations
Ian McAllister ¹	Chairman	Chairman of the Carbon Trust and Senior Non-Executive Director of Scottish & Newcastle plc
Adrian Montague ^{1,3,5}	Deputy Chairman and Chairman of Property Board Senior Independent Director	Chairman of British Energy plc and Michael Page International plc
John Armitt	Chief Executive	
Iain Coucher	Deputy Chief Executive	
Ron Henderson	Group Finance Director	
Chris Leah ⁴	Safety and Compliance Director	
Peter Henderson	Projects and Engineering Director	
Jim Cornell ¹		
Robert den Besten ^{1,3}		
Charles W Hoppe ¹		
Ross Sayers ^{1,3}		
David Bailey ^{1,2,3}		Director of the Southern Region New Trains Programme at the SRA

¹ Non-Executive Director

² SRA nominated Director

³ Member of Audit Committee

⁴ Due to retire on 3 December 2004

⁵ Expected to retire this year

Each of the directors is also on the board of Network Rail. Ian McAllister, Adrian Montague, Iain Coucher and Ron Henderson are also directors of NR Holdco (Adrian Montague is expected to retire at the end of this year).

The business address of the directors is the same as the registered office of NRIL.

Assets and Activities

NRIL owns and operates the national rail infrastructure in Great Britain, including track, signalling, bridges, tunnels, stations and light maintenance depots.

NRIL also owns substantially all stations, virtually all of which are leased to and operated by the passenger TOCs but NRIL itself operates a number of main line stations (the “**Managed Stations**”).

Licences

NRIL is authorised to operate the national rail network in Great Britain under a network licence (the “**Network Licence**”) and is authorised to operate the Managed Stations pursuant to a station licence, both granted by the Secretary of State under the Railways Act. Both the Network Licence and station licence have been granted for an unlimited period of time but can be terminated by the Secretary of State on 10 years’ notice, not to be given earlier than 1 April 2019. Each of the licences may be revoked by the Secretary of State, after consultation with the Office of Rail Regulation (“**ORR**”) (as described below under “*The Rail Industry in Great Britain — The Office of Rail Regulation*”) and the SRA, on not less than 3 months’ notice on the occurrence of certain events.

NRIL is under a general duty under its Network Licence to maintain, renew and develop the network in accordance with best practice and in a timely, efficient and economic manner.

Income

NRIL’s principal sources of income are (i) track access income from payments by TOCs under access agreements; and (ii) SRA Grants. In addition, NRIL receives track access income from payments by FOCs and from time to time funding from the SRA in respect of investment in its infrastructure. NRIL is also indirectly dependent on further public financial support since the majority of its principal customers, the TOCs, receive significant amounts of financial support by way of subsidy from the SRA under the relevant franchise agreements. NRIL also receives income from commercial property, other train operators, stations, depots and certain other assets.

The track access agreements entered into between the TOCs and NRIL allow ORR to review the level of track access charges at regular intervals of, generally, five years through the process of periodic review.

Financial Information relating to NRIL

No financial information on NRIL or the Network Rail group, other than that which appears in the audited consolidated financial statements of the SRA (see “*Appendix IV (Financial Statements of the SRA)*”), is contained in this Offering Circular. This is because the financial position of NRIL and the Network Rail group is immaterial to the ability of the Issuer to meet its obligations under the Notes, to the ability of the FI Provider to meet its obligations under the Financial Indemnity and to the rating assigned to the Programme by the Rating Agencies.

THE SRA

Corporate Description

The SRA was established by Section 201(1) of the Transport Act and formally came into being on 15 January 2001, assuming its full powers on 1 February 2001. Its address is 55 Victoria Street, London SW1H 0EU.

The SRA, as a body corporate established by statute, does not have the form of a standard limited company. The SRA is classified for the purposes of UK Government accounting practice as a Non-Departmental Public Body. This means that it is a body which carries out public functions but is not a Crown department, and the Transport Act specifies that, the SRA is not to be regarded as a servant or agent of the Crown (i.e. the UK Government) and its property shall not be regarded as the property of or held on behalf of the Crown.

The Rail Review White Paper announced that the SRA is to be wound up and its financial obligations (including under the Financial Indemnity) will be transferred, following primary legislation, to the Secretary of State. See “*Overview of the Transaction – Rail Review*” and “*The Rail Industry in Great Britain – Rail Review*” for further details.

Governance

Sections 202 and 203 and Schedule 14 to the Transport Act set out key provisions relating to governance of the SRA. The SRA is governed by a board made up of a chairperson and chief executive and between 7 and 14 other members (all appointed by the Secretary of State), including one person appointed after consultation with the Scottish Ministers and one person appointed after consultation with the National Assembly for Wales. The SRA appoints, with the approval of the Secretary of State, a chief executive.

The current board members of the SRA and their respective business addresses and business occupations are:

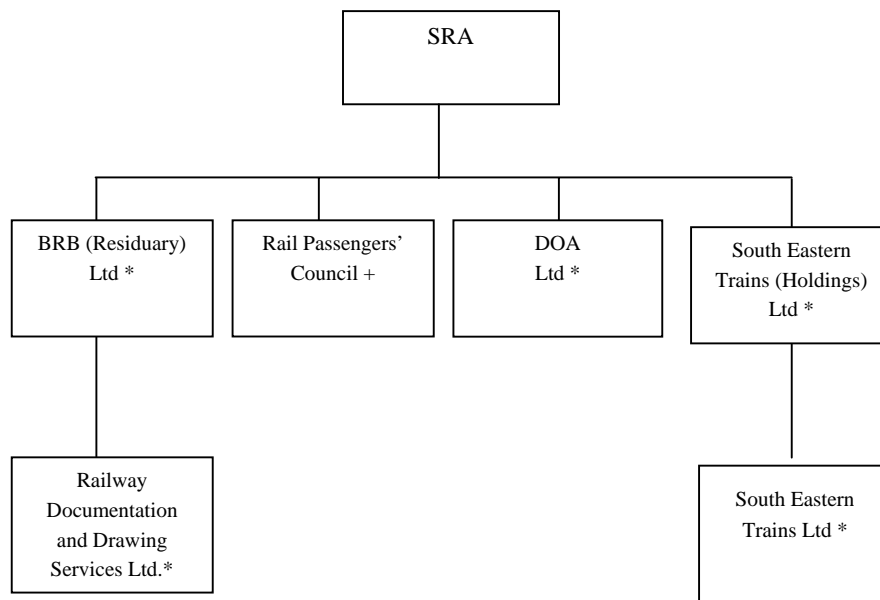
Name	Business Occupation	Other Principal Activities
David Quarmby	Chairman	Vice President of The Bluebell Railway Preservation Society and Governor of the University of Greenwich and Chairman of SeaBritain 2004.
Nick Newton	Chief Executive	
Lew Adams		Chairman of the National Route Crime Group. Export promoter for Trade Partners UK. Safety Committee member of Direct Rail Services Limited and member of the Steering Group of the National Rail Museum (oral archives).
Millie Banerjee		Director of the Cabinet Office Strategy Group and Non-executive director of Ofcom. Vice Chairman of the Carnegie UK Trust, Chair of the Cabinet Office Audit and Risk Committee and a Commissioner for Judicial Appointments.
David Begg		Chairman of the Commission for Integrated Transport, Professor of the Centre for Transport Policy at Robert Gordon University, Director of the

Name	Business Occupation	Other Principal Activities
		Portobello Partnership, Board Member of Transport for London and Board Member of Greater Manchester Passenger Transport Executive.
Willie Gallagher		Director of Touchdown Services Ltd. and Non-Executive Board member of Lothian Buses plc and the Scottish Legal Aid Board.
David Grayson		Partner at Irwin-Grayson Associates, Principal of the “corporate university” for the Business Links and Small Business Service, the BLU. Director of Business in the Community. Visiting Fellow at the Imperial College, a Visiting Professor at London Guildhall University and Patron of Scope.
Janet Lewis-Jones		Board Member of British Waterways, Commissioner of the Postal Services Commission. Vice President of the British Board of Film Classification, and a Trustee of the Baring Foundation and the Institute of Rural Health.
Pen Kent	Senior Independent Board Member	Non-executive director of Schroder & Co Ltd and F&C Capital and Income Trust PLC, Non-executive Chairman of UK Market Advisory Committee of Euroclear, Deputy Chairman of Heart of the City and Governor of the National Youth Orchestra of Great Britain.
Jeremy Mayhew		Partner at Spectrum Strategy Consultants, an adviser to the BBC, a Governor of London Metropolitan University, a common Councilman in the Corporation of London, a Council Member of the London Chamber of Commerce and Industry and a Trustee of the City Arts Trust.
David Norgrove		Governor of National Institute of Economic and Social Research and Member of British Museum.

The business address of the board of members is 55 Victoria Street, London SW1H 0EU.

Structure of the SRA

The structure of the SRA, which includes the Rail Passengers' Council, together with its subsidiaries (other than its dormant subsidiaries) is as set out below:



* subsidiary of the SRA

+ division of the SRA

BRB (Residuary) Limited manages certain property, rights and liabilities of British Rail that were transferred to the SRA on 1 February 2001. In particular this includes a property estate and any remaining obligations to former employees of British Rail and to sold businesses.

Railway Documentation and Drawing Services Ltd is a wholly owned subsidiary of BRB (Residuary) Ltd and acts as the custodian of intellectual property in railway rolling stock drawings.

The Rail Passengers' Council is a division of the SRA and coordinates the work of eight regional Rail Passenger Committees which promote the interests of rail passengers in accordance with the statutory framework.

DOA Ltd. is responsible for some of the administration of financial arrangements with the Passenger Transport Executives. The Passenger Transport Executives are statutory bodies, subject to local authority control, which are responsible for planning and funding of passenger rail services in certain metropolitan areas (the "**Passenger Transport Executives**").

South Eastern Trains (Holdings) Ltd is the holding company of South Eastern Trains Ltd.

South Eastern Trains Ltd runs train services in Kent, South London and parts of East Sussex and took over their operation from Connex Transport UK Ltd, on 9 November 2003. It operates the business on behalf of the SRA as the operator of last resort under Section 30 of the Railways Act (see "**Functions**" below) and will continue to do so until a private company is awarded the contract for the new Integrated Kent Franchise, planned to commence in 2005.

Statutory Purposes

The SRA's statutory purposes, as set out in Section 205 of the Transport Act, are: (i) to promote the use of the railway network for the carriage of passengers and goods; (ii) to secure the development of the railway network; and (iii) to contribute to the development of an integrated system of transport of passengers and goods.

Directions and Guidance

The Secretary of State, after consultation with the SRA and HM Treasury, has given directions and guidance to the SRA (the "**Directions and Guidance**") in accordance with his powers under the Transport Act (Sections 206(3) and 207(5)). On 4 October 2004, the Secretary of State issued directions to the SRA to enter into the Financial Indemnity, the form of which is reproduced in the section entitled "**Form of the Financial Indemnity**" of this Offering Circular.

The SRA is also subject to separate directions and guidance from Scottish Ministers (Section 208 of the Transport Act) and, in respect of services operating in Greater London, the Greater London Authority (or the Mayor of London acting on its behalf) (Section 196 of the Greater London Authority Act 1999). The directions and guidance to the SRA from the Scottish Ministers direct the SRA to deliver a Scottish franchise in line with the broad objectives of the Scottish Executive, namely that the railways play a full part in a sustainable, effective and integrated transport system, the railway network be safe and accessible and that there be more investment in the railway system. The Mayor of London published his directions and guidance to the SRA in January 2003 requiring the SRA to have due regard to the Mayor's Transport Strategy, the London Plan and other relevant Mayoral strategies when exercising its duties and functions. The Mayor's Transport Strategy sets out the need to increase the capacity, reliability, quality and integration of London's transport system.

Functions

The SRA's functions are, primarily: (i) to secure the provision of passenger rail services by acting as the franchising authority (Section 23 of the Railways Act) and as the operator of passenger rail services of last resort (Section 30 of the Railways Act), for example, if a franchise is terminated and no successor private sector operator has been appointed (as happened with Connex Transport UK Ltd (see "**Structure of the SRA**" above)); (ii) to enter into agreements to secure the provision, improvement or development by others of any railway services or assets or for any other railway related purpose; and (iii) to be responsible for consumer protection provisions in railway licences. The SRA is required to exercise its functions with a view to furthering its statutory purposes and it must do so in accordance with any strategies it has formulated with respect to them.

The SRA has powers under the Transport Act and the Railways Act to make grants, pay subsidies under the franchise agreements with TOCs, make loans or other payments, give guarantees or make investments in bodies corporate for such purposes. In addition, the SRA may do anything which it considers is necessary or appropriate for, or is incidental or conducive to, the exercise of any of its functions. For the purposes of encouraging railway investment, it may enter into agreements with any person under which it may undertake to exercise or refrain from exercising any of its franchising functions.

The SRA can also petition the High Court to place a "protected" railway company which is the holder of a passenger licence into railway administration with the consent of the Secretary of State.

SRA's Financial Position

As at 31 March 2004 the consolidated balance sheet for the SRA (excluding Network Rail group) shows net liabilities of £504.5m. This reflects the inclusion of liabilities falling due in future years, which to the extent that they are not to be met from the SRA's other sources of income may be met only by future grants or grants-in-aid from the SRA's sponsoring department, the DfT. Under normal conventions applying to Parliamentary control over income and expenditure, such grants may not be issued in advance of need, and, subject to Parliamentary approval, will be made available as the liabilities fall due. The liabilities are underpinned by a minute laid before Parliament regarding provisions relating to British Rail and by the spending plan for the DfT over the next three years.

The SRA recorded a loss for the financial year 2002/3 and a surplus for the financial year 2003/4, which arose primarily from timing differences which come from two main sources:

- The SRA Audited Accounts are prepared on an accruals basis, although the grant-in-aid income recorded by the SRA has been measured in cash accounting terms. This is a requirement of UK Government accounting, compliance with which is specified through the Accounts Direction from the Secretary of State dated 2 July 2003 (the "**Accounts Direction**"). UK Government accounting guidance does not allow income to be recognised until it has been voted by Parliament. This causes a mismatch between income and expenditure. Grant income will be paid in future periods as the accrued expenditure falls due.
- The SRA Audited Accounts include changes to existing provisions and the creation of new provisions, all of which are of a non-cash nature. The largest of these is the provision for network grant. In 2003/4 there was a difference between the charge to the provision and the cash paid, in part reversing the timing difference in the previous financial year.

Grants-in-aid for 2004/5, taking into account the amounts required to meet the SRA's liabilities falling due in that year, have already been included in the DfT's estimates for the year, which have been approved by Parliament. It has accordingly been considered appropriate by the SRA to adopt a going concern basis for the presentation of the SRA Audited Accounts.

Financial information for the two accounting periods ended 31 March 2003 and 2004 is set out in Appendix IV from the audited consolidated financial statements of the SRA for the periods stated.

These audited financial statements are included for information purposes only and should not be relied on for the purpose of determining the SRA's ability to meet its obligations under the Financial Indemnity. Those obligations are unsecured liabilities of the SRA and rank *pari passu* with all its other unsecured liabilities outstanding from time to time. The SRA has many other contingent liabilities (a number of which are described in "**Capitalisation and Indebtedness of the SRA**").

Other than the Financial Indemnity the SRA's contingent liabilities currently include the provision of financial support to the Network Rail group. This other financial support is capped at £21.05 billion in relation to principal.

Each of these elements of support is the subject of comfort from the Secretary of State. Further details of the support provided by the SRA to the Network Rail group are set out in "**Capitalisation and Indebtedness of the SRA – Contingent Liabilities**".

Funding for its activities

The SRA's principal source of funding is grant-in-aid paid by the Secretary of State, subject to the annual Parliamentary supply process. The maximum amount of grant-in-aid available to the SRA and the purposes

for which it may be used by the SRA are set by Parliament in the main supply estimate, which is published annually and incorporates the requests for resources of all UK Government departments, subject to any provision in approved supplementary estimates. Additional grant-in-aid is paid by the Scottish Executive and can only be used for the purposes approved by the Scottish Parliament.

The Secretary of State's powers in relation to the financing of the SRA are set out in the Transport Act. The SRA is required to exercise its functions in accordance with a financial framework prepared by the Secretary of State under the Transport Act which sets out the rules and principles according to which the SRA is to exercise its functions in relation to financial matters.

The DfT notifies the SRA of the arrangements and timetable for the relevant supply estimates as soon as possible after they are established. The SRA provides such further information concerning its budget and requirements for grant-in-aids as may be required by the DfT for the purpose of supplementary estimates.

The SRA submits its budget to the DfT each year for the following financial year together with a reassessment of its budget for the current year every three months with an appropriate explanation of any changes. Payment of grant-in-aid will normally be made according to demonstrated need following a claim made by the SRA for grant-in-aid. The DfT can draw down sufficient cash from its requests for resources to allow it to meet the SRA's agreed grant-in-aid requirement. To enable the DfT to best manage the cash draw down, the SRA submits grant-in-aid claims to the DfT by the end of the second week of each railway industry payment period. In calculating grant-in-aid requirements, the SRA takes into account any cash surpluses or losses arising from previous grant-in-aid claims. Grant-in-aid claims must be signed by the SRA's accounting officer, or by another person notified by him/her to the DfT.

The SRA may borrow such sums in sterling as it requires from the Secretary of State or, with the consent of the Secretary of State and the approval of HM Treasury, may borrow temporarily in sterling from third parties. It may not, however, exceed its borrowing limit which is currently £3,000,000,000 (or such greater amount as may be specified by the Secretary of State after the approval of HM Treasury and the House of Commons). Other than the loans from the Passenger Transport Executives, whose principal amount was as at 18 September 2004 £71.8 million, the SRA has no borrowings outstanding.

The Secretary of State (with the approval of HM Treasury) may guarantee any sum the SRA borrows from a third party. Such guarantees must be laid before Parliament. To date the Secretary of State has given no such guarantees.

Relationship between the SRA and the Network Rail Group

The SRA has a number of powers, rights and obligations in relation to Network Rail which include the special membership rights discussed under "*The Network Rail Group*". They also include: (i) the provision of grant support payments (including the SRA Grants); (ii) the provision of credit facilities together with related agreements, which in specified circumstances allow providers of finance to the Network Rail group to recover amounts lent by them to companies within the Network Rail group directly from the SRA; and (iii) a standby credit facility to act as a long term contingency buffer. The long term contingency buffer has a term of 50 years, whereas the facilities referred to in (ii) above either expire, or are capable of extensions such that they expire, by 2009. A co-operation agreement dated 27 June 2002 between the SRA, Network Rail and NRIL, as amended, lays down procedures for co-operation in relation to joint industry initiatives, access charge reviews, development and implementation of SRA strategies and information provision.

Given the SRA's powers and rights, together with the financial support package that the SRA provides to Network Rail as set out above, in line with Financial Reporting Standard 5: "Reporting the Substance of Transactions", Network Rail has been treated as a quasi subsidiary of the SRA within the consolidated

financial statements of the SRA. The consolidation of Network Rail group into the SRA's accounts does not arise from the legal form, or from ownership of shares, but it occurs due to the requirements of financial reporting standards. The transactions and results of Network Rail group have been consolidated into the SRA's accounts from 3 October 2002.

Applicability of Insolvency Act

The SRA may be capable of being the subject of insolvency proceedings under the Insolvency Act. At the date of this Offering Circular, the SRA's accounts show a net liability on its balance sheet and therefore the value of the SRA's assets may be less than the amount of its liabilities, taking into account its contingent and prospective liabilities. An order could be made to place the SRA in administration if the court were satisfied that to do so would be likely to achieve one or more of the purposes specified by the Insolvency Act. The making of an administration order would prevent any action being taken against the SRA without the consent of the administrator or the permission of the court. Any delay in enforcement of claims against the SRA may result in payments on the Notes being delayed or not being made at all. If a winding-up order were made against the SRA, no action or proceeding could be proceeded with or commenced without the permission of the court.

Secretary of State Comfort Letter

In recognition of the magnitude of the SRA's potential liabilities in respect of the Programme, the Secretary of State will provide a specific Comfort Letter in respect of those obligations prior to the issuance of any Notes under the Programme. The full text of that letter, which is addressed to, *inter alia*, the SRA and the Security Trustee is set out in "**Appendix I – Comfort Letter from Secretary of State**".

In this context, the Comfort Letter states that (as at the date of the Comfort Letter) the Secretary of State regards it as untenable that, where the SRA is unable to meet its financial obligations under the Financial Indemnity, he would stand by and do nothing. As a matter of public law, however, the Secretary of State cannot fetter his discretion and the Comfort Letter is not intended to do that; it does not create binding obligations and should not be construed as a guarantee by the Secretary of State of the obligations of the SRA nor any undertaking as to the way in which the Secretary of State would exercise his discretionary powers in any particular case. There can, therefore, be no assurance that the support currently expressed for the SRA in the Comfort Letter will not be withdrawn without notice or liability to any Noteholders or any other person.

Rating

The SRA is rated AAA by S&P and Fitch and Aaa by Moody's.

In order for the SRA to obtain a public credit rating, the DfT issued a letter of comfort to the SRA on 3 March 2003 which sets out the status of the SRA, the Secretary of State's role in funding the SRA and the implications for the SRA's ability to meet its financial obligations. The letter does not put the Secretary of State under any legally binding obligation to finance the SRA's liabilities, nor does it bind the Secretary of State to exercise his discretionary powers in any particular way in any particular case. It does, however, represent the Secretary of State's intentions (as at the date of the letter) in the event that there is a call over and above the SRA's agreed budget, arising from financial obligations entered into by the SRA before or after the date of the letter of comfort either within the financial framework prepared by the Secretary of State or with the agreement of the Secretary of State if outside it and provided that such obligations have not been incurred in contravention of a specific published direction of the Secretary of State under Section 207(5)(b) of the Transport Act not to incur such liabilities. In such an event the Secretary of State confirms in the letter of

comfort that he would act in a timely manner, seeking the approval of Parliament, as appropriate, to ensure that adequate funds would be made available to meet such financial obligations in time and in full. In this context, the Secretary of State regards it as untenable that he would stand by and allow the SRA to default on its financial obligations.

If the Secretary of State were to repudiate the letter or otherwise act in a way inconsistent with it, that is likely to affect adversely the SRA's rating.

CAPITALISATION AND INDEBTEDNESS OF THE SRA

The following table sets out the unaudited consolidated reserves of the SRA and the unaudited consolidated indebtedness of the SRA as at 18 September 2004, excluding Network Rail and its subsidiaries. The information contained in the table below does not provide investors with a basis upon which to determine the SRA's ability to meet its obligations under the Financial Indemnity, which turns principally on the UK Government continuing provision of funding to the SRA and liabilities fall due for payment (see "*Appendix I (Comfort Letter from Secretary of State)*").

In line with Financial Reporting Standard 5: "Reporting the Substance of Transactions", Network Rail has been treated as a quasi subsidiary of the SRA within the consolidated financial statements of the SRA (see "*Appendix IV (Financial Statements of the SRA) – Notes to the Accounts – Network Rail*"). The information contained in the table below does not consolidate financial information on NRIL or Network Rail as the financial position of NRIL and the Network Rail group does not affect the ability of the Issuer to meet its obligations under the Notes and the ability of the SRA to meet its obligations under the Financial Indemnity.

	As at 18 September 2004
	(£m)
Reserves	
Reserves	(353.8)
Indebtedness	
Amounts falling due within one year	
Receipts in advance	41.7
Trade creditors	51.3
Accruals and deferred income	158.6
Payroll, taxation and social security	14.1
Interest accrued on capital liabilities	0.7
Leasing liabilities.....	3.1
PTE Loans	2.9
Other.....	7.9
Amounts falling due after more than one year	
PTE Loans	68.9
Leasing Liabilities	66.6
Other.....	16.1
Total Indebtedness:	431.9

The SRA does not have any capital nor has it entered into any secured or guaranteed obligations.

Notes

Contingent Liabilities

- (i) The British Railways Board has given certain warranties and indemnities in relation to the sale of businesses, most of which are subject to financial caps and time limits, a number of which extend until 2020 or thereabouts. The potential liabilities include personal injury claims and environmental damage. These have now all been transferred to the SRA as part of BRB (Residuary) Limited. Where it is probable that these will materialise, a provision has been included within the provision for liabilities and charges. The aggregate sum of the financial caps totals £1.3bn after provisions. In addition there are also certain uncapped liabilities. Whilst it is possible that a number of unexpected claims will emerge over time, the SRA believes that provision has been made in these accounts for the amounts likely to be payable.
- (ii) The British Railways Board, jointly with the French National Railway, has rights to utilise a proportion of the capacity of the Channel Tunnel through the period of the concession granted. In return, the Board has certain obligations to the concessionaires, which are specified in a Usage Contract, to provide infrastructure works and joint obligations to operate services from the date of the opening of the Tunnel. In operating these contracts the SRA has acted as if it was the British Railways Board.

The rights and obligations under this contract have been variously delegated to NRIL, Eurostar (UK) Limited and Railfreight Distribution Limited. Should any of these parties default, any outstanding obligations will fall in due course to the SRA.

- (iii) The SRA has the following contingent liabilities relating to support provided to Network Rail group in respect of a number of credit facilities, including:
 - (a) A credit support facility of £10.05bn together with related agreements, which in specified circumstances allow providers of finance to Network Rail to recover amounts lent directly from the SRA. The Network Rail group has secured a £9bn credit facility with nine banks, each providing a £1bn commitment, and the remaining £1.05bn of support is from EIB/KFW facilities (see note 22 to the SRA accounts in this Offering Circular).
 - (b) A credit support facility of £4bn and related agreements (similar to those in (a) above) to support Network Rail's £4bn commercial paper programme.
 - (c) A standby credit facility of £4bn to act as a long-term contingency buffer.
 - (d) A credit support facility of £10bn and related agreements (similar to those in (a) above) to support Network Rail's £10bn Medium Term Note (MTN) programme. Up to £7bn of this MTN credit support replaces the credit support referred to in (a).

With the exception of the long-term contingency buffer, the above facilities either expire, or are capable of extension such that they expire by March 2009. The long-term contingency buffer has a term of 50 years. The SRA financial support to Network Rail is capped at £21.05bn in relation to the principal.

- (iv) In the ordinary course of carrying out the business of the SRA, the SRA may enter into guarantees or obligations which give rise to contingent liabilities. Where required by the regulations governing the SRA, these will be notified to Parliament. All of the contingent liabilities dealt with through this process have been reviewed and are considered to be remote in likelihood of crystallising and are therefore not disclosed within the SRA accounts in this Offering Circular.

- (v) The SRA has responsibility for a number of legacy pension schemes formerly part of the British Railways Board. The SRA is required to fund the employer's share of any deficits arising on these schemes (see note 29 to the SRA accounts in this Offering Circular).

THE RAIL INDUSTRY IN GREAT BRITAIN

Historical Background

The first locomotive-hauled railway for the transport of passengers and goods was the Stockton & Darlington Railway, which opened in 1825. The first trunk lines from London and cross-country routes opened in the 1830s and the railway system in Great Britain developed rapidly thereafter. The railways were established by private companies which consolidated over time and were nationalised in 1948.

The Transport Act 1962 established the British Railways Board (“**British Rail**”) and vested in it responsibility for the provision of railway services in Great Britain. On 1 April 1994, almost all of British Rail’s operational railway infrastructure and some other property, was transferred to Railtrack PLC, a subsidiary of Railtrack Group PLC which was then privatised in May 1996. The remaining commercial activities of British Rail, including the provision of train services, were divided into separate businesses and sold or franchised by the UK Government.

Railtrack PLC was placed in railway administration on 7 October 2001. On 3 October 2002, the High Court discharged the railway administration order, following an application by the Secretary of State. Network Rail completed its acquisition of Railtrack PLC from Railtrack Group PLC immediately after the discharge of that order took effect. Railtrack PLC was re-registered under the Companies Act 1985 (the “**Companies Act**”) as a private company limited by shares on 3 February 2003, and concurrently changed its name from “Railtrack PLC” to “Network Rail Infrastructure Limited”.

UK Government’s Transport Policy

The UK Government has developed its objectives for the railway as part of its transport strategy, as set out in the White Paper “The Future of Transport, a network for 2030”, (the “**Transport White Paper**”) presented to Parliament by the Secretary of State on 20 July 2004. The strategy is built around three key themes: sustained investment over the long term; improvements in transport management; and planning ahead. It outlines the UK Government’s transport expenditure plans to 2015 and sets longer term aspirations for the next 30 years.

On 15 July 2004, the Secretary of State presented to Parliament the Rail Review White Paper. This sets out a number of reforms that are intended to provide a coherent and effective management structure for the railway in Great Britain. It makes clear what is the role of the UK Government and gives NRIL clear responsibility for day to day management of the network, whilst enabling TOCs to build their businesses by carrying more passengers and improving their customer focus. Further details are in “**Rail Review**” below.

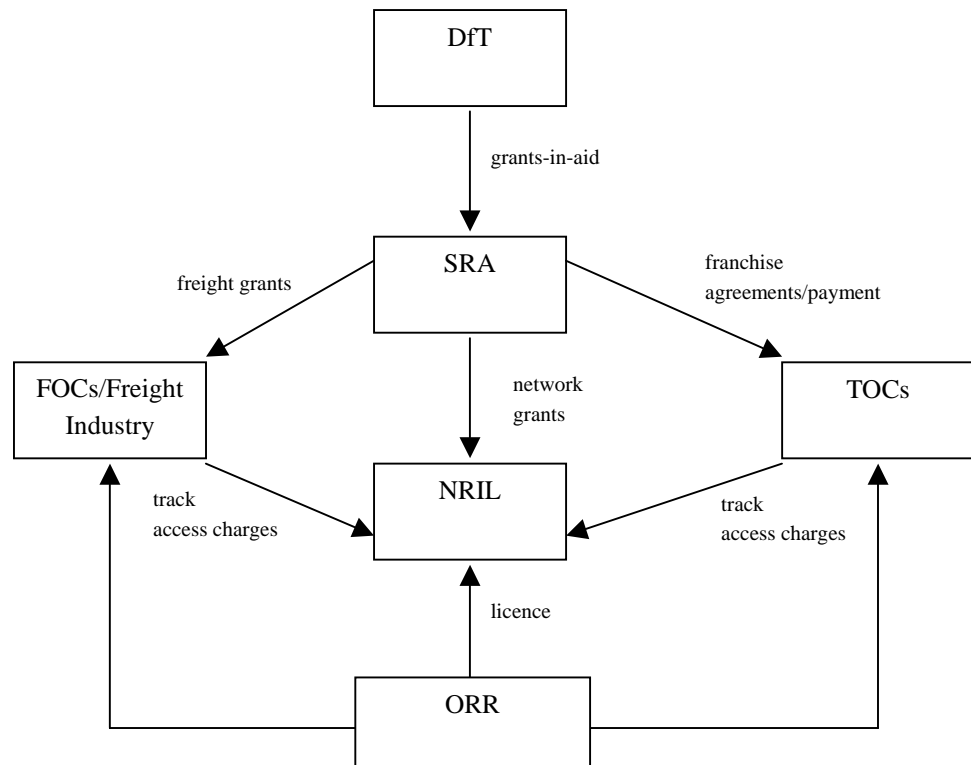
Importance of Rail

The direct user benefits from the rail system have been estimated at £15 billion per annum with a further £2.9 billion in non-user benefits. The Transport White Paper affirms that the railways are a vital part of the UK’s transport infrastructure, with an important role to play in meeting increasing demand for travel. In recent years, public funding available for the railways has substantially increased from £1.8 billion in 1997-98 to £3.8 billion in 2004-05.

Summary of the Structure of the Rail Industry in Great Britain

A diagram highlighting the key current entities relevant to the railway system in Great Britain is set out below. NRIL and SRA are described in the sections headed “**The Network Rail Group**” and “**The SRA**” above.

This structure, and the descriptions of the TOCs and FOCs, the Regulatory Regime (as described in the section headed “*The Regulatory Regime*” below), the Secretary of State, the ORR and the Health and Safety Executive (the “**HSE**”) are likely to change when the proposals outlined in the Rail Review White Paper have been implemented. A number of these proposals require primary legislation (see section headed “*Rail Review*” below).



TOCs and FOCs

There are at present over 20 TOCs which provide passenger rail services, each of which has been granted a licence to operate trains. TOCs obtain use of track by means of access agreements entered into with NRIL and approved by ORR (other than on the Isle of Wight, where Island Line Express Limited leases the railway infrastructure from NRIL).

The passenger rail service operations of most of the TOCs have been franchised. The SRA is in the process of implementing a franchise replacement programme and has announced that a number of existing franchises will be consolidated with the aim of having a single franchised TOC at major London terminals.

The remaining passenger rail services are operated under a combination of unregulated (Eurostar, Heathrow Express and London Underground) and regulated (Hull Trains, Merseyrail Electrics and others) access agreements. TOCs may also be involved in other related activities such as the operation of stations and the provision of maintenance services for their rolling stock requirements.

TOCs are funded from receipts from passenger ticket sales. In respect of franchised TOCs, the franchise agreement sets out the level of additional payments made by or to the SRA. The payments from the SRA consist of a fixed charge and additional amounts under incentive regimes. Under the franchise agreements, the SRA retains certain risks which generally include, *inter alia*, the risk of changes in NRIL costs arising from ORR’s access charges reviews and certain cost changes arising out of certain changes of law.

In the Rail Review White Paper the Secretary of State has stated that there will be fewer passenger franchises in the future, aimed at closer joint alignment with NRIL's regional structure.

FOCs operate the train services to move freight on the network. Unlike most of the TOCs, the freight business operates in an "open access" environment where any operator can run freight trains subject to obtaining a licence, safety case and access to the network by means of track access agreements with NRIL. FOCs generally have long leases for the occupation and use of freight terminals, sidings, yards, depots and other premises on land owned by NRIL.

The Regulatory Regime

The Transport Act created the SRA and defines its functions. The Railways and Transport Safety Act 2003 made provision for the creation of the Office of Rail Regulation ("**ORR**"), and ORR was subsequently established on 5 July 2004, at which time it succeeded to the functions of the Rail Regulator (the "**Rail Regulator**"). ORR's functions are set out in the Railways and Transport Safety Act 2003 and the Railways Act.

The SRA, ORR and the Health and Safety Commission (through its operational arm, HSE) are the bodies principally responsible, together with the Secretary of State, for the regulation of the rail industry in Great Britain. For a description of the functions of the SRA (see "*The SRA – Functions*" above).

A key provision of the regulatory regime is that, under the Railways Act, operators of trains, networks, stations and light maintenance depots are required to be licensed unless they are granted an exemption. It is a criminal offence to operate without such a licence or exemption. Operators of trains, stations and networks must also have a safety case accepted by the HSE pursuant to the Railways (Safety Case) Regulations 2000, as amended. Other important aspects of the regulatory regime are outlined below (see "*Health and Safety Executive*" and "*Railway Safety and Standards Board*" below).

The Secretary of State for Transport

The Secretary of State shares general duties with ORR in exercising various functions under the Railways Act. Those statutory duties include: acting in a manner he considers best calculated to protect the interests of the users of railway services; to promote the use of the railway network in Great Britain for the carriage of passengers and goods, and the development of that network to the greatest extent he considers economically practicable; to impose on operators of railway services the minimum restrictions which are consistent with the performance of his functions; and to enable persons providing railway services to plan the future of their businesses with a reasonable degree of assurance.

The Secretary of State also has a duty to take into account the need to protect all persons from dangers arising from the operation of railways, taking into account, in particular, any advice given to him by the HSE; and to have regard to the effect on the environment of activities connected with the provision of railway services.

The Secretary of State has a wide range of functions under the Railways Act, the Transport Act and the Railways and Transport Safety Act 2003 including: the appointment of ORR, the Chairman and members of the SRA; providing general guidance to ORR and Directions and Guidance to the SRA; deciding if any proposed statutory closure of passenger networks and facilities used in connection with passenger services should be implemented; granting railway licences following consultation with ORR and the SRA or giving specific consent or general authority to ORR empowering ORR to grant licences. The Secretary of State can also petition the High Court to place a "protected railway company" into railway administration under Section 60 of the Railways Act.

Office of Rail Regulation

ORR was established on 5 July 2004. It is independent of Government and replaced the Rail Regulator, whose functions were the same as those of ORR. This reform brings the railways into line with other regulated industries by replacing the individual regulator with a regulatory board.

ORR consists of a Chairman and at least four other members who are appointed by the Secretary of State. The Secretary of State must consult with the Chairman about the appointment of the other members of the board. The Chairman and members may be appointed for a term of up to five years (but may be reappointed). ORR, as established on 5 July 2004, consists of six members: the Chairman (Chris Bolt, who has been appointed for a five-year term) a chief executive and four non-executive members.

ORR's functions include the granting (with the authority or consent of the Secretary of State and after consultation with the SRA), the modifying in certain circumstances and enforcing of licences to operate trains, networks, stations and light maintenance depots (except in relation to the consumer protection conditions of licences, as these are generally enforced by the SRA and modifications must be consented to by the SRA). Enforcement is by means of provisional or final orders issued by ORR requiring compliance with one or more licence conditions. A final order may also include provisions for a financial penalty of up to 10% of the operator's turnover to be paid. Contravention of a provisional or final enforcement order would be a breach of statutory duty and would be actionable by any person who sustained loss or damage as a result of the contravention of the order.

ORR also approves the terms, including price, on which access to track, stations and light maintenance depots is obtained. ORR has the power to require NRIL to enter into access agreements where NRIL and the operator have not been able to agree on the terms for access and from time to time to review the form and level of track access charges.

ORR also enforces prohibitions on anti-competitive agreements and abuse of a dominant position under the Competition Act 1998 and under Articles 81 and 82 of the EC Treaty (concurrently with the Office of Fair Trading (the "OFT")) in so far as they relate to the supply of railway services. ORR also acts as an appeal body in certain types of dispute in relation to industry-wide network codes.

Health and Safety Executive

The HSE is the safety regulator for railways in Great Britain, protecting employees, passengers and the wider public. The HSE enforces, through HM Railways Inspectorate, health and safety at work law on the railways, both the general requirements that apply to all work activities and the specific laws relating to railway operations, in particular the Health and Safety at Work etc. Act 1974 and the Railways (Safety Case) Regulations 2000 (as amended). The HSE's functions include assessing and accepting safety cases (which are a prerequisite to operating a network, train or station) submitted by NRIL, passenger or freight train operators and station operators, and the approval of new works and equipment on the railways.

The Rail Review White Paper set out the UK Government's intention to transfer the role of safety regulator from the HSE to the ORR, subject to the implementation of primary legislation.

Railway Safety and Standards Board

The Railway Safety and Standards Board came into being on 1 April 2003, as a successor to Railway Safety, and the SRA currently provides it with a non-executive director. Its key functions are to produce the rail industry's collective health and safety plan, to monitor and review its health and safety performance, and to manage the industry's process for setting safety standards.

Rail Review

The Rail Review White Paper sets out the conclusions of the review of the railways announced by the Secretary of State on 19 January 2004. The review considered the structural and organisational changes needed to enable the rail industry to deliver for its customers as well as looking at the regulation of safety and the progress being made by the industry in improving performance and controlling costs.

The Rail Review White Paper establishes that the key priorities for the rail industry are to control its costs and live within the level of public funding available to it, and to improve performance for passengers and freight users. It describes the structural and organisational changes to the rail industry needed to deliver these priorities and outlines a new blueprint for the railways, which the UK Government has worked closely with the rail industry to develop. It is built on the principle of public and private partnership, recognising rail's status as a public service and aims to streamline the structure and organisation of the rail industry whilst reducing bureaucracy and creating simple, unambiguous lines of responsibility. The proposed key changes are:

- The UK Government will take charge of setting the strategy for the railways: It will set the level of public expenditure available and take strategic decisions on what this should buy.
- The SRA will be wound up and its strategic responsibilities and financial obligations will pass to the Secretary of State.
- NRIL will be given clear responsibility for operating the rail network and for its performance. It will be held accountable for ensuring that the rail network delivers a reliable service for its customers.
- Track and train companies will work more closely together. The new structure is intended to deliver more efficient working between NRIL and the train companies. The number of franchises will be reduced and aligned more closely with NRIL's regional structure.
- There will be an increased role for the Scottish Executive, the Welsh Assembly and the London Mayor, and more local decision making in England.
- The ORR will cover safety, performance and cost. This means responsibility for safety regulation will pass from the HSE to ORR.
- Freight operators will be given greater certainty about their rights on the national network.

A number of these changes will require primary legislation.

USE OF PROCEEDS

The proceeds of Indemnified Debt (including the Notes) raised by the Issuer and the benefit of the Financial Indemnity will be used by the Issuer only for the purposes of financing NRIL's Permitted Business (as that term is defined in the Network Licence) including:

- (i) to reserve against or pay interest, principal or other amounts due and payable on any Permitted Business Debt;
- (ii) to reserve against or pay the Issuer's liabilities to third parties incurred under or in connection with any Permitted Business Debt;
- (iii) to reserve against or pay any other amounts agreed by NRIL and the Issuer to be retained or paid by the Issuer in connection with Permitted Business Debt; and/or
- (iv) for any general corporate or other lawful purpose necessary for or in connection with the financing of NRIL's Permitted Business.

All of the proceeds of Indemnified Debt (including the Notes) raised by the Issuer except those used for the purposes described in (i) to (iv) above (the "**Net Proceeds**") will, subject to the provisions of the Security Trust Deed, be on-lent by the Issuer to NRIL.

NRIL will use the Net Proceeds on-lent to it by the Issuer and the proceeds of any other Indemnified Debt:

- (i) to make payments in respect of its Permitted Business; and
- (ii) to make payments under or in connection with any Permitted Business Debt.

"Permitted Business Debt" means any financial indebtedness of NRIL or any of its affiliates, Network Rail MTN Finance PLC (a funding vehicle of NRIL) or the Issuer to the extent that such financial indebtedness was entered into to fund or refinance NRIL's Permitted Business and/or the acquisition of NRIL by Network Rail.

FORM OF THE FINANCIAL INDEMNITY

Set out below is the form of the Financial Indemnity (including the form of Notice of Claim which is included in the Financial Indemnity) substantially in the form it will be executed on or about the date of this Offering Circular.

Dated [] 2004

STRATEGIC RAIL AUTHORITY

and

HSBC TRUSTEE (C.I.) LIMITED

FINANCIAL INDEMNITY

Linklaters

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TABLE OF CONTENTS

	Page
1 Obligation to Pay	57
2 Debt Service Shortfall Amount.....	57
3 Avoided Payment Amounts	57
4 UK Withholding Tax.....	59
5 Termination of Indemnity	59
6 Waiver of Defences.....	59
7 Change of FI Provider	61
8 Payments.....	61
9 Notices of Claim.....	62
10 Costs and Expenses	62
11 Definitions and Interpretation.....	62
12 Miscellaneous	68
13 Governing Law and Jurisdiction.....	68
Schedule 1 Conditions for Substitution of FI Provider	71
Schedule 2 Notice of Claim	72
Schedule 3 Form of Deed of Novation.....	74

THIS FINANCIAL INDEMNITY is dated [] 2004 and made between:

- (1) Strategic Rail Authority, a statutory corporation created under section 201 of the Transport Act 2000 (the “SRA”) and any permitted successor to or transferee of the SRA’s obligations under this Financial Indemnity; and
- (2) HSBC Trustee (C.I.) Limited as security trustee (and any other security trustee for the time being) under the Security Trust Deed referred to below (the “Beneficiary”).

Background:

- (A) This Financial Indemnity is being entered into by the FI Provider for the purpose of securing the provision, improvement or development by others of any railway services or railway assets.
- (B) This Financial Indemnity is intended by the parties to take effect as a deed.

IT IS AGREED as follows:

1 Obligation to Pay

- 1.1 The FI Provider hereby agrees, subject only to the terms of this Financial Indemnity, unconditionally and irrevocably to pay each and every:
 - 1.1.1 Debt Service Shortfall Amount; and
 - 1.1.2 Avoided Payment Amount,to the Beneficiary.
- 1.2 Such payment shall be made by the FI Provider as principal debtor and not merely as a surety.

2 Debt Service Shortfall Amount

- 2.1 If the Beneficiary is notified (or otherwise becomes aware) that a Debt Service Shortfall Amount has arisen or is projected to arise on any Payment Date, a Notice of Claim may be given by (or on behalf of) the Beneficiary in respect of that Debt Service Shortfall Amount.
- 2.2 A Notice of Claim under Clause 2.1 may be given no earlier than:
 - 2.2.1 in respect of Prefunded Debt, the relevant Trigger Date; and
 - 2.2.2 in respect of Non-Prefunded Debt, the relevant Payment Date.
- 2.3 Payment by the FI Provider of any Debt Service Shortfall Amount set out in a Notice of Claim shall be made in accordance with Clause 8 (*Payments*).

3 Avoided Payment Amounts

- 3.1 A Notice of Claim in respect of any Avoided Payment Amounts may be given by (or on behalf of) the Beneficiary at any time after the right to claim such amount arises.
- 3.2 Payment by the FI Provider of any Avoided Payment Amounts set out in a Notice of Claim shall be made in accordance with Clause 8 (*Payments*).

4 UK Withholding Tax

- 4.1 All payments of Indemnified Amounts by the FI Provider under this Financial Indemnity shall be made without withholding or deduction for, or on account of, any taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political subdivision or taxing authority in or of the United Kingdom unless such withholding or deduction is required by law.
- 4.2 If any withholding or deduction is so required by law, the FI Provider shall pay such amounts for the account of each Indemnified Creditor in respect of which a withholding or deduction has been made as may be necessary in order that the net amounts receivable by the relevant Indemnified Creditor after such withholding or deduction shall equal the Indemnified Amounts which would have been receivable by such Indemnified Creditor from the Issuer in respect of the relevant Indemnified Debt had payment of the Indemnified Amount been made by the Issuer.

5 Termination of Indemnity

- 5.1 This Financial Indemnity is not cancellable by the FI Provider for any reason and constitutes irrevocable obligations of the FI Provider.
- 5.2 Subject to Clause 5.3, this Financial Indemnity shall terminate on 3 October 2052 (or such later date as the FI Provider may specify in writing to the Beneficiary), provided that if by such date the Full Repayment Date has not occurred, this Financial Indemnity shall terminate on the Full Repayment Date.
- 5.3 If:
- 5.3.1 the liability of the FI Provider in respect of any claim made under this Financial Indemnity has arisen before the Termination Date and remains outstanding at the Termination Date; and
- 5.3.2 the Issuer has become subject to any Insolvency Proceedings before the Termination Date, this Financial Indemnity shall terminate on the later of:
- (i) the Termination Date;
- (ii) the date of the conclusion or dismissal of such Insolvency Proceedings without continuing jurisdiction by the court in such Insolvency Proceedings; and
- (iii) the date on which the FI Provider has made all payments required to be made by it in respect of any Avoided Payment Amounts.
- 5.4 The FI Provider will cease to be liable for any claim made under this Financial Indemnity after the date on which this Financial Indemnity terminates in accordance with Clauses 5.2 or 5.3.

6 Waiver of Defences

- 6.1 The obligations of the FI Provider under this Financial Indemnity shall not be affected by:
- 6.1.1 any intermediate settlement or discharge of any Indemnified Debt;
- 6.1.2 any Insolvency Proceedings in relation to any Financed Network Operator or the Issuer;
- 6.1.3 any lack of validity or enforceability or any modification or any amendment to the terms of any Indemnified Debt; or

- 6.1.4 the granting of any time, indulgence or concession by any party to any Financed Network Operator or to the Issuer or any compulsory requisition or acquisition of any part of the Rail Network of Great Britain.
- 6.2 The FI Provider acknowledges that this is a contract of indemnity and not a contract of insurance and agrees there is no duty of disclosure or utmost good faith under this Financial Indemnity by the Beneficiary, any Indemnified Creditor or any other party to any Transaction Document. Nonetheless, to the fullest extent permitted by applicable law, the FI Provider hereby waives and agrees not to assert any and all rights (whether by counterclaim, avoidance, rescission, set-off or otherwise), remedies, equities and defences including, without limitation, any defence or rights of avoidance, cancellation or rescission arising from or based on:
- 6.2.1 fraud (excluding fraud in the calculation and/or completion of the amount of any Indemnified Amount in any Notice of Claim submitted pursuant to this Financial Indemnity by (or on behalf of) the Beneficiary or any Indemnified Creditor provided that this shall not operate to exclude any fraud by Network Rail Infrastructure Limited (as Administrator) or any successor in the calculation or completion of any Notice of Claim);
- 6.2.2 misrepresentation, breach of warranty or condition, breach of the doctrine of “utmost good faith” or any similar doctrine or non-disclosure of information by any person;
- 6.2.3 the commencement of any Insolvency Proceedings in respect of any person or a change in the status, function, control or ownership of any person;
- 6.2.4 any Indemnified Debt being or becoming illegal, invalid, unenforceable or ineffective in any respect;
- 6.2.5 any failure or omission of the Beneficiary to make a demand under this Financial Indemnity or to perfect or enforce any security given by the Issuer or any Financed Network Operator in respect of any Indemnified Debt or to make demand on or to proceed against any person or entity prior to demanding payment under this Financial Indemnity provided that the FI Provider will only be obliged to pay an Indemnified Amount following Receipt of a Notice of Claim in respect of the relevant Indemnified Amount;
- 6.2.6 any failure by any Programme Party to comply with its obligations; or
- 6.2.7 any other thing, matter, event or circumstances which would have discharged the FI Provider (wholly or in part) whether as surety or otherwise or which would have afforded the FI Provider any legal or equitable defence.
- 6.3 The waivers set out in Clause 6.2 apply only to the extent that those rights, remedies, equities and defences may be available to the FI Provider to avoid its obligations under this Financial Indemnity.
- 6.4 The FI Provider agrees that nothing in this Financial Indemnity constitutes a warranty or a condition precedent to the FI Provider’s obligations under this Financial Indemnity.
- 6.5 The obligations of the FI Provider under this Financial Indemnity shall not be affected by any redenomination of any Indemnified Debt into another currency pursuant to the terms and conditions applicable to any such Indemnified Debt or pursuant to applicable law, save that following such redenomination payments under this Financial Indemnity shall be made in the relevant other currency.

7 Change of FI Provider

- 7.1 The FI Provider may not transfer any part of its rights, obligations or liabilities (actual or contingent) under this Financial Indemnity except in accordance with Clause 7.2.
- 7.2 The FI Provider may transfer its rights, obligations and liabilities (actual and contingent) under this Financial Indemnity to a Crown Body:
- 7.2.1 in accordance with relevant legislation effecting such transfer; or
- 7.2.2 subject to the conditions set out in Schedule 1 (*Conditions for Substitution of FI Provider*), (in each case, such transferee being a “**Substitute FI Provider**”).
- 7.3 Where:
- 7.3.1 Clause 7.2.1 applies, upon the date on which, pursuant to the relevant legislation, the transfer of the rights, obligations and liabilities (actual and contingent) of the FI Provider under this Financial Indemnity to the Substitute FI Provider takes effect; or
- 7.3.2 Clause 7.2.2 applies, upon satisfaction of the conditions set out in Schedule 1 (*Conditions for Substitution of FI Provider*),
- the following shall take effect:
- (i) the Substitute FI Provider shall be deemed to be named in this Financial Indemnity in place of the FI Provider;
- (ii) the FI Provider shall be automatically released from all its obligations and liabilities (actual and contingent) and cease to have any rights under this Financial Indemnity; and
- (iii) the Substitute FI Provider will assume all the rights, obligations and liabilities (actual and contingent) of the FI Provider under this Financial Indemnity in substitution for the FI Provider.
- 7.4 The Beneficiary hereby agrees that upon request by the FI Provider and upon satisfaction of condition 2 of Schedule 1 (*Conditions for Substitution of FI Provider*) it shall enter into a deed of novation substantially in the form of Schedule 3 (*Form of Deed of Novation*).

8 Payments

- 8.1 The FI Provider will make payment of an Indemnified Amount on or before the relevant FI Payment Date.
- 8.2 If, following Receipt of a Notice of Claim any payment is made to the FI Payments Account in respect of the relevant Indemnified Amount, the Beneficiary (or its agent) shall promptly notify the FI Provider and the obligation of the FI Provider to make payment of the Indemnified Amount shall be reduced by an amount equal to the amount so paid.
- 8.3 Payments due under this Financial Indemnity in respect of an Indemnified Amount will be satisfied by payment in full of that Indemnified Amount (reduced in accordance with Clause 8.2) to the FI Payments Account and in the currency, in each case, as specified in the relevant Notice of Claim.
- 8.4 Payment by the FI Provider in accordance with Clause 8.3 shall discharge the obligations of the FI Provider under this Financial Indemnity to the extent of such payment.

8.5 Any amounts retained by or on behalf of the Beneficiary following payment by the FI Provider in respect of an Indemnified Amount in accordance with Clause 8.3 and after application of those amounts towards payment of the Indemnified Amount in full on the relevant FI Payment Date:

8.5.1 belong to the FI Provider;

8.5.2 will be held by (or on behalf of) the Beneficiary on trust for the FI Provider; and

8.5.3 will be promptly paid back to the FI Provider by (or on behalf of) the Beneficiary.

9 Notices of Claim

9.1 Any Notice of Claim must be delivered to the FI Provider at the address specified in the form of the Notice of Claim attached to this Financial Indemnity (or such other address as notified to the Beneficiary in writing on not less than 10 Business Days' notice).

9.2 Any Notice of Claim must be delivered personally.

9.3 If any Notice of Claim is not properly completed or delivered as provided in this Financial Indemnity, it may be deemed by the FI Provider not to have been received.

9.4 The FI Provider shall promptly advise the Beneficiary by telephone:

9.4.1 of Receipt of any Notice of Claim; and

9.4.2 if it deems any Notice of Claim not to have been received.

9.5 If any Notice of Claim is deemed not to have been received, the Beneficiary may submit to the FI Provider another Notice of Claim.

10 Costs and Expenses

If the FI Provider has improperly withheld payment of any Indemnified Amounts, then the FI Provider shall indemnify the Beneficiary against all costs and expenses (including any irrecoverable VAT thereon) incurred by the Beneficiary in successfully enforcing any claims against the FI Provider in respect of this Financial Indemnity in a final, non appealable order of a court of competent jurisdiction.

11 Definitions and Interpretation

11.1 The following terms shall have the following meanings:

“**Account Bank**” means the Issuer’s account bank from time to time.

“**Avoided Payment Amounts**” means an amount equal to any amount paid by the FI Provider under this Financial Indemnity or by the Issuer in respect of any Indemnified Debt that has been recovered (in whole or in part) from the Beneficiary or any Indemnified Creditor pursuant to any Insolvency Proceedings.

“**Business Day**” means any day (other than a Saturday or Sunday) on which commercial banks settle payments and are open for general business in London.

“**Crown Body**” means any United Kingdom government department or other body (whether incorporated or unincorporated) whose liabilities are direct sovereign obligations of the Crown (as that term is or was used in Section 201 of the Transport Act 2000).

“**Debt**” means any financial indebtedness of the Issuer, including but not limited to:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted;
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price;
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution;
- (k) any accrued but unpaid interest, fees, costs and expenses incurred under or as part of the raising of financial indebtedness; and
- (l) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (k) above.

“**Debt Service Amount**” means the aggregate amount due and payable on or in respect of any Indemnified Debt on the relevant date.

“**Debt Service Prefunding Account**” means the Euro Debt Service Prefunding Account, the Sterling Debt Service Prefunding Account, the US\$ Debt Service Prefunding Account and any other account of the Issuer designated as a Debt Service Prefunding Account of the Issuer and notified to the Beneficiary under the Security Trust Deed.

“**Debt Service Shortfall Amount**” means in respect of a Payment Date an amount equal to the greater of:

- (a) zero; and
- (b) $X - Y$

where:

$X =$ the Specified Debt Service Amount

$Y =$ (i) in relation to Prefunded Debt, “**Reserved Cash**” being the amount standing to the credit of the relevant Debt Service Prefunding Account on the relevant Trigger Date and which will be available on that Payment Date to pay the Specified Debt Service Amount. For these purposes, “available” means that the relevant amount is capable of being freely transferred from the relevant Debt Service Prefunding Account at the direction of the Beneficiary (or its agent).

Reserved Cash:

- (aa) includes the amount of any investments maturing on or before that Payment Date and treated as credited to the relevant Debt Service Prefunding Account; but
 - (bb) does not include any amounts required to pay Indemnified Amounts due before that Payment Date.
- (ii) in relation to Non-Prefunded Debt, zero.

“**Deed of Charge**” means the deed of charge given by the Issuer in favour of the Beneficiary on or about the date of this Financial Indemnity.

“**Euro Debt Service Prefunding Account**” means account number 58728312, sort code 40-05-15 held with the Account Bank in London in the name of the Issuer or any replacement account or accounts or any other account of the Issuer so designated by the Issuer and notified to the Beneficiary under the Security Trust Deed.

“**Finance Document**” means:

- (a) each document listed in Schedule 1D (*Finance Documents*) of the Security Trust Deed; and
- (b) any other document designated as a Finance Document by the Issuer in accordance with Clause 2.3 (*Additional Finance Documents*) of the Security Trust Deed.

“**Financed Network Operator**” means any person financed, in whole or in part, directly or indirectly by the proceeds of Indemnified Debt.

“**FI Payments Account**” means any bank account that is notified by the Beneficiary to the FI Provider as the account(s) to which payment of any Indemnified Amount should be made but shall not include any bank account of the Issuer.

“**FI Payment Date**” means in relation to an Indemnified Amount:

- (a) in respect of a Payment Date which is a scheduled final maturity date in respect of Prefunded Debt, the date which is the twentieth Business Day; and
- (b) in respect of any other Indemnified Amount, the date which is the fifth Business Day,

following Receipt of the Notice of Claim in respect of that Indemnified Amount.

“**FI Provider**” means the SRA and any permitted successor to or transferee of the SRA’s (or any subsequent FI Provider’s) obligations under this Financial Indemnity.

“**FI Provider Document**” means the Security Trust Deed, this Financial Indemnity, the programme participation agreement dated on or about the date of this Financial Indemnity and entered into between, *inter alios*, the FI Provider and the Issuer and any other document designated as a FI Provider Document by the FI Provider and the Issuer in accordance with Clause 5.4 (*Additional FI Provider Documents*) of the Security Trust Deed.

“**Full Repayment Date**” means the earlier of:

- (a) the date on which the Beneficiary certifies in writing to the FI Provider in accordance with Clause 10.11 (*Information Provisions and the Full Repayment Date*) of the Security Trust Deed that the Beneficiary has received written confirmation from (or on behalf of or in respect of) each Indemnified Creditor that the Secured Liabilities owing to such Indemnified Creditor have been unconditionally and irrevocably paid and discharged in full and that such Indemnified

Creditor is not under any further actual or contingent obligation to make advances or provide other financial accommodation to the Issuer under any of the Finance Documents; and

- (b) the date falling two years after the date on which the Secured Liabilities owing to all the Indemnified Creditors have been paid and discharged in full and no Indemnified Creditor is under any further actual or contingent obligation to make advances or provide other financial accommodation to the Issuer under any of the Finance Documents.

“Indemnified Amount” means any:

- (a) Debt Service Shortfall Amount; and
- (b) Avoided Payment Amount,

in each case, set out in a Notice of Claim delivered in accordance with Clause 9.1 (or any replacement Notice of Claim delivered in accordance with Clause 9.5). For these purposes, Indemnified Amounts shall include any amounts that would have been due and/or payable in respect of any Indemnified Debt but for such Indemnified Debt being disclaimed, set aside, extinguished, rescinded, postponed or held to be void or unenforceable upon a liquidation, winding-up or other Insolvency Proceeding in respect of the Issuer.

“Indemnified Creditors” means:

- (a) each of the entities listed in Schedule 1F (*Indemnified Creditors*) of the Security Trust Deed;
- (b) any other entity which accedes to the Security Trust Deed after the date of the Security Trust Deed as an Indemnified Creditor (or whose Secured Creditor Representative accedes to the Security Trust Deed on its behalf) in accordance with Clause 20.3 (*Accession of New Parties*) of the Security Trust Deed; and
- (c) any other entity which the Issuer notifies in writing to the Beneficiary under the Security Trust Deed; but
- (d) not including any entity which ceases to be an Indemnified Creditor in accordance with Clause 20.4 (*Removal of Existing Parties*) of the Security Trust Deed,

provided that none of Network Rail Infrastructure Limited, the Issuer, the FI Provider nor any of their respective affiliates shall be an Indemnified Creditor.

“Indemnified Debt” means any Debt owing by the Issuer to an Indemnified Creditor under a Finance Document.

“Insolvency Proceeding” means the winding-up, dissolution, administrative receivership, receivership or administration of a company or corporation and shall be construed to include any equivalent or analogous proceedings under the law of the jurisdiction in which that company or corporation is incorporated or any jurisdiction in which that company or corporation carries on business including the seeking of liquidation, winding-up, re-organisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

“Issuer” means Network Rail Infrastructure Finance plc (a company incorporated in England with limited liability under registered number 05090412) and whose registered office is 40 Melton Street, London NW1 2EE.

“Non-Prefunded Debt” means any Indemnified Debt which is not Prefunded Debt.

“**Notice of Claim**” means a notice certifying the amount of any Debt Service Shortfall Amount or Avoided Payment Amount (as applicable) and substantially in the form attached as Schedule 2 (*Notice of Claim*).

“**NRIL Document**” means:

- (a) each of the documents listed in Schedule 1E (*NRIL Documents*) of the Security Trust Deed; and
- (b) any other document designated as a NRIL Document by the Issuer and notified to the Beneficiary under Security Trust Deed.

“**Payment Date**” means each date on which any amount is due and payable on or in respect of any of the Indemnified Debt.

“**Prefunded Debt**” means any Indemnified Debt that is notified in writing by the Issuer to the Beneficiary under the Security Trust Deed as being Prefunded Debt.

“**Programme Party**” means each of the Security Trustee, each Indemnified Creditor, each Financed Network Operator, the Issuer and the FI Provider.

“**Receipt**” means delivery personally to the FI Provider at the address specified in the form of Notice of Claim attached to this Financial Indemnity (or any other address notified by the FI Provider to the Beneficiary on not less than 10 Business Days notice) at or before 12:00 noon, London time, on a Business Day, provided that delivery either on a day that is not a Business Day or after 12:00 noon, London time, shall be deemed to be Receipt on the next succeeding Business Day.

“**Secured Creditor**” means each Indemnified Creditor and the FI Provider.

“**Secured Liabilities**” means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any capacity whatsoever) of the Issuer to any Secured Creditor under each Finance Document to which the Issuer is a party.

“**Security Trust Deed**” means the security trust deed dated on or about the date of this Financial Indemnity and made between, *inter alios*, the Beneficiary and the Issuer.

“**Specified Debt Service Amount**” means the aggregate Debt Service Amount specified in the relevant Notice of Claim as being due and payable on the relevant Payment Date (including, for these purposes, any accrued but unpaid interest, costs and expenses up to the relevant FI Payment Date).

“**Specified Indemnified Debt**” means, in respect of any Indemnified Amount specified in a Notice of Claim, the Indemnified Debt specified in that Notice of Claim.

“**Sterling Debt Service Prefunding Account**” means account number 58837164, sort code 40-05-15 held with the Account Bank in London in the name of the Issuer or any replacement account or accounts or any other account of the Issuer so designated by the Issuer and notified to the Beneficiary under the Security Trust Deed.

“**Substitute FI Provider**” has the meaning given to that term in Clause 7.2.

“**Substitution Affected Document**” and “**Substitution Affected Documents**” have the meanings given to them in Schedule 1 (Conditions for Substitution of FI Provider).

“**Termination Date**” means the date on which this Financial Indemnity terminates in accordance with Clause 5.2.

“**Transaction Document**” means:

- (a) each NRIL Document;

- (b) each FI Provider Document; and
- (c) each Finance Document.

“**Trigger Date**” means in relation to Prefunded Debt:

- (a) and in respect of a Payment Date which is a scheduled final maturity date, the date falling twenty-one Business Days before that Payment Date; and
- (b) in respect of a Payment Date which is not a scheduled final maturity date, the date falling six Business Days before that Payment Date.

“**US\$ Debt Service Prefunding Account**” means account number 58728320, sort code 40-05-15 held with the Account Bank in London in the name of the Issuer or any replacement account or accounts or any other account of the Issuer so designated by the Issuer and notified to the Beneficiary under the Security Trust Deed.

11.2 In this Financial Indemnity, except to the extent that the context requires otherwise:

- 11.2.1 an “**amendment**” includes a variation, modification, supplement, restatement, replacement, novation, assignment or re-enactment or any waiver which has such effect and “**amended**” will be construed accordingly;
- 11.2.2 “**including**” shall be construed as a reference to “**including without limitation**”, so that any list of items or matters appearing after the word “including” shall be deemed not to be an exhaustive list, but shall be deemed rather to be a representative list, of those items or matters forming a part of the category described prior to the word “including”;
- 11.2.3 a “**law**” shall be construed as any law (including common law), statute, constitution, decree, judgment, treaty, regulation, directive, by-law, order or any other legislative measure of any government, supranational, local government, statutory or regulatory body or court;
- 11.2.4 a “**person**” includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- 11.2.5 a “**regulation**” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- 11.2.6 a currency is a reference to the lawful currency for the time being of the relevant country;
- 11.2.7 references to a statute, treaty or legislative provision or to a provision of it shall be construed, at any particular time, as including a reference to any amendment, modification, extension or re-enactment at any time then in force and to all subordinate legislation made from time to time under it;
- 11.2.8 references in the singular shall include references in the plural and vice versa, words denoting any gender shall include any other gender and words denoting natural persons shall include any other persons;
- 11.2.9 references to an agreement, deed, instrument, licence, code or other document (including this Financial Indemnity), or to a provision contained in any of these, shall be construed, at the

particular time, as a reference to it as it may then have been amended, varied, supplemented, restated, replaced, modified, suspended, assigned or novated;

11.2.10 a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Financial Indemnity; and

11.2.11 a reference to a party to this Financial Indemnity or any other person includes its successors in title, permitted assigns and permitted transferees.

11.3 The headings in this Financial Indemnity do not affect its interpretation.

12 Miscellaneous

12.1 This Financial Indemnity constitutes the entire agreement between the FI Provider and the Beneficiary in relation to the FI Provider's obligation to make payments to the Beneficiary in respect of Indemnified Amounts.

12.2 Any notice other than a Notice of Claim made under this Financial Indemnity must be in writing. It may be made by letter or facsimile. The address and facsimile number of:

12.2.1 the FI Provider are as set out in the form of the Notice of Claim attached as Schedule 2 (*Notice of Claim*); and

12.2.2 the Beneficiary are as set out below:

Address: P.O. Box 88
1 Grenville St.
St. Helier
Jersey JE4 9PF

Fax Number: 01534 606 504

or, in each case, such other address or facsimile number as notified in writing by the recipient of the notice to the deliverer of the notice on not less than 10 Business Days' notice.

12.3 If any provision of this Financial Indemnity becomes invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

12.4 No person shall have rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Financial Indemnity.

13 Governing Law and Jurisdiction

13.1 This Financial Indemnity shall be governed by and construed in accordance with English law.

13.2 The courts of England are to have exclusive jurisdiction to settle any disputes (including claims for set-off and counterclaims) which may arise in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by, this Financial Indemnity or otherwise arising in connection with this Financial Indemnity and for such purpose each of the FI Provider and the Beneficiary irrevocably submit to the jurisdiction of the English courts.

13.3 Each of the Beneficiary and the FI Provider irrevocably agrees that a final non-appealable order of a court of competent jurisdiction in connection with this Financial Indemnity is conclusive and binding on it and may be enforced against it in the courts of any other jurisdiction.

13.4 The FI Provider irrevocably consents to service of process or any other document in connection with proceedings in any court by facsimile transmission, personal service or delivery at any address specified in this Financial Indemnity or in any other manner permitted by English law.

13.5 If at any time the FI Provider is, or may be, otherwise entitled to state immunity, the FI Provider irrevocably:

13.5.1 consents generally in accordance with the State Immunity Act 1978 to relief being given against it in England or any other jurisdiction:

(i) by way of injunction or order for specific performance or for the recovery of any property whatsoever or other provisional or protective measures; and

(ii) to its property being subject to any process for the enforcement of a judgment or any process effected in the course of or as a result of any action in rem; and

13.5.2 waives and agrees not to claim any immunity:

(i) from suits and proceedings (including actions in rem) in England or any other jurisdiction; and

(ii) from all forms of execution, enforcement or attachment to which it or its property is now or may hereafter become entitled under the laws of any jurisdiction, and

declares that such waiver shall be effective to the fullest extent permitted by such laws and, in particular, the United States Foreign Sovereign Immunities Act of 1976.

In witness whereof, this Financial Indemnity has been executed and delivered as a deed on the date written above.

This Corporate Seal of
STRATEGIC RAIL AUTHORITY
to this Deed affixed is authenticated by

Authorised by Strategic Rail Authority

Beneficiary

EXECUTED AS A DEED by
HSBC TRUSTEE (C.I.) LIMITED
acting by

Schedule 1
Conditions for Substitution of FI Provider

The conditions referred to in Clause 7.2 are that:

- 1 the FI Provider, the Substitute FI Provider and the Beneficiary entering into a deed of novation substantially in the form set out in Schedule 3 (*Form of Deed of Novation*); and
- 2 all costs and expenses properly incurred by the Beneficiary in effecting such transfer are paid by (or on behalf of) the Substitute FI Provider.

Schedule 2 Notice of Claim

Strategic Rail Authority
55 Victoria Street
London SW1H 0EU
Attention: General Legal Counsel

The undersigned, a duly authorised officer of [HSBC Trustee (C.I.) Limited]** (the “**Beneficiary**”) [or an agent of the Beneficiary]*, hereby certifies to [Strategic Rail Authority]*** (the “**FI Provider**”), with reference to the Financial Indemnity dated [] 2004 (the “**Financial Indemnity**”) issued by the FI Provider in respect of the obligations of Network Rail Infrastructure Finance plc (a company incorporated in England with limited liability under registered number 5090412) (the “**Issuer**”), that:

1

- (i) [the amounts (“**Specified Debt Service Amounts**”) which [will be/were] due for payment on [*insert Payment Date*] (the “**Payment Date**”) under the [*identify each relevant Indemnified Debt(s)*] (“**Specified Indemnified Debt**”) [will be/were] [*insert applicable currency and amount for each form of Specified Indemnified Debt*];
- (ii) [the Reserved Cash which is available to pay the Specified Indemnified Debt on the Payment Date is [*insert applicable currency and amount for each form of Specified Indemnified Debt*];]*
- (iii) the Debt Service Shortfall Amount in respect of the Specified Indemnified Debt [will be/was][*insert applicable currency and amount in respect of each form of Specified Indemnified Debt*];]*

OR

- (i) [the Beneficiary or any Indemnified Creditor has received the following amounts paid by the FI Provider under this Financial Indemnity or by the Issuer in respect of the following Indemnified Debt (“**Specified Indemnified Debt**”) which have been recovered (in whole or in part) from the Beneficiary or, as the case may be, that Indemnified Creditor pursuant to any Insolvency Proceedings: [*insert applicable currency and amount in respect of each form of Specified Indemnified Debt*];]*

2 The Beneficiary is making a claim under the Financial Indemnity for the Debt Service Shortfall Amount/Avoided Payment Amount* to be applied to the payment of the relevant Indemnified Amounts which [will be/were] due for payment on the Payment Date.

3 The Beneficiary agrees that, following payment of funds by the FI Provider in respect of the relevant Indemnified Amounts, it shall use reasonable endeavours to procure (a) that such amounts are applied directly to the payment of the relevant Indemnified Amounts which are due for payment on the Payment Date; (b) that such funds are not applied for any other purpose; (c) the maintenance of an accurate record of such payments with respect to each Specified Indemnified Debt and the corresponding claim on the Financial Indemnity and

** If the Beneficiary is not HSBC Trustee (C.I.) Limited, insert the name of the successor security trustee under the Security Trust Deed.

*** If the FI Provider is not Strategic Rail Authority, insert the name of the FI Provider.

* Delete as necessary

* Delete as necessary

* Delete as necessary

* Delete as necessary

the proceeds thereof; and (d) that any excess amount in the FI Payments Account remaining after payment of such funds by the FI Provider and the application of those funds in meeting any Specified Debt Service Amount/Avoided Payment Amount* is promptly paid back to the FI Provider; for the purposes of (a) and (b) above, it shall be sufficient if the Beneficiary directs the FI Provider to make payment to the relevant paying agent appointed under the agency agreement dated on or about the date of the Financial Indemnity and entered into between, *inter alios*, the Issuer and the Beneficiary; and

- 4 Payment should be made by the FI Provider in [currency] by credit for value on the Payment Date to the following accounts in the name of [insert name] with [insert name of bank], of [insert address of bank], Sort Code [], Account Number [].

Unless the context otherwise requires, capitalised terms used and not defined in this Notice of Claim shall have the meanings given to them in the Financial Indemnity.

No person shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Notice of Claim.

This Notice of Claim shall be governed by and construed in accordance with English law.

[Insert name of Beneficiary/agent of Beneficiary]

By (sign):

Name (print):

Title:

Phone Number:

Date:

* Delete as necessary

Schedule 3 Form of Deed of Novation

This DEED OF NOVATION is dated [] and made between:

- (1) [insert name and details of current FI Provider] (the “**FI Provider**”);
- (2) [insert name and details of Substitute FI Provider] (the “**Substitute FI Provider**”);
- (3) [insert name and details of Security Trustee] (the “**Beneficiary**”);
- (4) NETWORK RAIL INFRASTRUCTURE FINANCE PLC (the “**Issuer**”); and
- (5) NETWORK RAIL INFRASTRUCTURE LTD. (“**NRIL**”).

Background:

- (A) This Deed of Novation is being entered into by the FI Provider, the Substitute FI Provider, the Beneficiary, the Issuer and NRIL for the purpose of novating all of the FI Provider’s rights, obligations and liabilities (actual and contingent) under the Financial Indemnity and the Transaction Documents to which it is a party, to the Substitute FI Provider.
- (B) This Deed of Novation is intended by the parties to take effect as a deed.

IT IS AGREED as follows:

1 Definitions

Except as otherwise specified, terms defined or interpreted in Clause 11 (*Definitions and Interpretation*) of the financial indemnity dated [] 2004 issued by the Strategic Rail Authority to the Beneficiary (the “**Financial Indemnity**”), as amended and/or supplemented from time to time, bear the same meaning in this Deed (including the Recitals hereto):

“**Effective Date**” means [insert effective date of novation].

2 Novation

With effect from the Effective Date:

- 2.1 each of the FI Provider and the Beneficiary shall be released from all their respective obligations and liabilities (actual and contingent) towards one another under the Financial Indemnity and any other Transaction Documents to which they are, mutually, a party (the “**Relevant Documents**”) and their respective rights against one another under such Relevant Documents shall be cancelled (being the “**Discharged Rights, Obligations and Liabilities**”); and
- 2.2 each of the Substitute FI Provider and the Beneficiary shall assume obligations and liabilities (actual and contingent) towards one another and/or acquire rights against one another as if the Substitute FI Provider were the original party to the Relevant Documents in place of the FI Provider and which differ from the Discharged Rights, Obligations and Liabilities only insofar as the Substitute FI Provider and the Beneficiary have assumed and/or acquired the same in place of the FI Provider and the Beneficiary. For the avoidance of doubt, the Substitute FI Provider shall perform all outstanding obligations and discharge all outstanding liabilities (actual and contingent) of the FI Provider arising

prior to the Effective Date or arising in respect of any matter or thing occurring prior to the Effective Date.

3 Representations

The representations set out in this Clause are made by the Substitute FI Provider to the FI Provider and the Beneficiary.

- 3.1 It is validly existing and is a Crown Body.
- 3.2 It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of the FI Provider Documents and this Deed of Novation and the transactions contemplated thereby.
- 3.3 The obligations expressed to be assumed by it in any of the FI Provider Documents and this Deed of Novation are legal, valid, binding and enforceable obligations.
- 3.4 The entry into and performance by it of, and the transactions contemplated by, any of the FI Provider Documents and this Deed of Novation do not conflict with:
 - (i) any law or regulation applicable to it; or
 - (ii) any term of any other FI Provider Document in a way which would be materially prejudicial to the Indemnified Creditors.

4 Counterparts

This Deed may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of this Deed of Novation.

5 Severability

If any provision of this Deed of Novation becomes invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

6 Third Party Rights

No person shall have rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Deed of Novation.

7 Governing Law and Jurisdiction

- 7.1 This Deed of Novation shall be governed by and construed in accordance with English law.
- 7.2 The courts of England are to have exclusive jurisdiction to settle any disputes (including claims for set-off and counterclaims) which may arise in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by, this Deed of Novation or otherwise arising in connection with this Deed of Novation and for such purpose each of the FI Provider, the Substitute FI Provider, the Beneficiary, the Issuer and NRIL irrevocably submit to the jurisdiction of the English courts.

In witness whereof, this Deed of Novation has been executed and delivered as a deed on the date written above.

FI Provider

[Insert execution clause]

Substitute FI Provider

[Insert execution clause]

Beneficiary

[Insert execution clause]

Issuer

[Insert execution clause]

NRIL

[Insert execution clause]

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or Global Certificate(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on any Bearer Notes or on the Certificates relating to Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by a trust deed (as amended or supplemented from time to time, the “**Trust Deed**”) (the date of such Trust Deed being the “**Programme Establishment Date**”) between Network Rail Infrastructure Finance PLC (the “**Issuer**”) and HSBC Trustee (C.I.) Limited, as note trustee (in such capacity, the “**Note Trustee**”, which expression shall include all persons for the time being the note trustee or note trustees under the Trust Deed) relating to the Issuer’s £20,000,000,000 note programme (the “**Programme**”).

These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An Agency Agreement (as amended or supplemented from time to time, the “**Agency Agreement**”) dated the Programme Establishment Date has been entered into in relation to the Notes between the Issuer, the Note Trustee, HSBC Bank plc as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent(s)**” (together, the “**Agents**”).

The Issuer has entered into a security trust deed dated the Programme Establishment Date (as amended, varied, supplemented, modified, suspended, assigned or novated from time to time, the “**Security Trust Deed**”) with, *inter alios*, HSBC Trustee (C.I.) Limited as security trustee (in such capacity, the “**Security Trustee**”, which expression shall include all persons for the time being the security trustee or security trustees under the Security Trust Deed) pursuant to which the Security Trustee and the other parties thereto agree to certain intercreditor arrangements.

The Issuer has entered into one, and may enter into more intercompany loan agreements (collectively the “**Intercompany Loan Agreement**”) with Network Rail Infrastructure Limited (“**NRIL**”) under which the Issuer agrees to make available to NRIL the net proceeds from the issuance of Notes and other financial indebtedness.

The Issuer has entered into a deed of charge dated the Programme Establishment Date (the “**Deed of Charge**”) with the Security Trustee pursuant to which the Issuer grants, by way of security assignment or charge, certain fixed and floating security to the Security Trustee. Pursuant to the Security Trust Deed, the Security Trustee holds the Security (as defined in the Security Trust Deed) for itself and on behalf of the Secured Creditors (as defined in the Security Trust Deed) which include the Note Trustee (for itself and on behalf of the Noteholders (as defined below), HSBC Bank plc in its capacity as the Issuer’s account bank (the “**Account Bank**”), the FI Provider (as defined below) and the Agents, together with any other holders of any

Indemnified Debt (as defined in the Security Trust Deed) and any additional creditor of the Issuer which accedes to the Security Trust Deed in accordance with its terms.

The FI Provider (as defined in Condition 10 (*Events of Default*) below) has provided a financial indemnity (as amended, varied, supplemented, modified, suspended, assigned or novated from time to time, the “**Financial Indemnity**”) in favour of the Security Trustee who holds the benefit of such Financial Indemnity for, amongst others, the Noteholders.

The Trust Deed, the Notes, the Security Trust Deed, the Deed of Charge and the Agency Agreement are each a “**Programme Document**” and are together the “**Programme Documents**”.

Copies of, *inter alia*, the Trust Deed, the Deed of Charge, the Security Trust Deed, the Financial Indemnity, the Intercompany Loan Agreement and the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Issuing and Paying Agent, the Registrar and any other Paying Agents and Transfer Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity.

The Noteholders, the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) and the holders of the receipts for the payment of instalments of principal (the “**Receipts**”) (the “**Receiptholders**”) relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Deed of Charge, the Security Trust Deed, the Financial Indemnity and the applicable Pricing Supplement and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

1 Form, Denomination and Title

The Notes are issued in bearer form (“**Bearer Notes**”, which expression includes Notes that are specified to be Exchangeable Bearer Notes), in registered form (“**Registered Notes**”) or in bearer form exchangeable for Registered Notes (“**Exchangeable Bearer Notes**”) in each case in the Specified Denomination(s) shown hereon.

All Registered Notes shall have the same Specified Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest denomination of Exchangeable Bearer Notes.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name (or, in the case of joint holders, the first named thereof) a Registered Note is registered in the Register (as the case may be), “**holder**” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered in the Register (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

- (a) **Exchange of Exchangeable Bearer Notes:** Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same nominal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 7(b)) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer’s option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate

Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(a), (b), or (c) shall be available for delivery within three business days of receipt of the request for exchange or form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Exchange Free of Charge:** Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption, or (iv) during the period of 7 days ending on (and including) any Record Date. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

3 Status

- (a) **Notes, Receipts and Coupons:** The Notes and the Receipts and Coupons relating to them constitute secured, limited recourse obligations of the Issuer, are secured in the manner described in Condition 4 and shall at all times rank *pari passu* and without any preference among themselves and will rank in priority to all unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (b) **Financial Indemnity:** The Financial Indemnity constitutes an unsubordinated and unsecured obligation of the FI Provider which will rank at least *pari passu* with all other unsubordinated and unsecured obligations of the FI Provider, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

4 Security, Priority and Relationship with Secured Creditors

- (a) **Security:** Under the Deed of Charge, the Issuer secures by way of security assignments, first fixed charges and/or a first floating charge the Security Assets (as defined in the Deed of Charge) for the

benefit of the Secured Creditors. Each further Series of Notes issued by the Issuer and any additional creditor of the Issuer acceding to the Security Trust Deed will share in the Security.

- (b) **Relationship among Noteholders and with other Secured Creditors:** The Trust Deed contains provisions detailing the Note Trustee's obligations to consider the interests of the Noteholders as regards all powers, trusts and authorities, duties and discretions of the Note Trustee. The Security Trust Deed provides that the Security Trustee will, where required, act on instructions of the Instructing Creditors (as defined in the Security Trust Deed) (including the Note Trustee as trustee for and representative of the holders of each Series of Notes) and, when so doing, the Security Trustee is not required to have regard to the interests of any Secured Creditor (including the Note Trustee as trustee for and representative of the Noteholders or any individual Noteholder) in relation to the exercise of such rights and consequently, has no liability to the Noteholders as a consequence of so acting.
- (c) **Enforceable Security:** In the event of the Security becoming enforceable as provided in the Deed of Charge, the Security Trustee shall (in certain circumstances, only if instructed by the Instructing Creditors) enforce its rights with respect to the Security, but without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any particular Secured Creditor (including the Note Trustee as trustee for the Noteholders or any individual Noteholder), provided that the Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured to its satisfaction.
- (d) **Note Trustee and Security Trustee not liable for security:** The Note Trustee and the Security Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to property which is the subject of the Security, whether such defect or failure was known to the Note Trustee or the Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Security whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security. Neither the Note Trustee nor the Security Trustee have any responsibility for the value of any such Security.
- (e) **Limited Recourse and Non-Petition:** None of the Note Trustee, the Noteholders or the holders of any Coupon, Talon or Receipt may, to the fullest extent permitted by applicable law, institute against or join or support any other person in instituting against the Issuer any bankruptcy, reorganisation, arrangement, insolvency or liquidation proceedings or other similar proceeding in any jurisdiction (other than the appointment of a receiver or administrative receiver solely for the purpose of enforcing the Security) prior to the date that is one year and one day after the maturity date of the last maturing Indemnified Debt.

The liability of the Issuer to pay any amounts due under the Notes shall be limited to and payable solely out of the amounts received by the Issuer, or the Security Trustee on behalf of the Issuer, in respect of its assets. If, or to the extent that the amounts recovered on realisation of its assets are insufficient to pay or discharge amounts due from the Issuer under the Notes in full for any reason, the Issuer will have no liability to pay or otherwise make good any such insufficiency.

Subject always to this Condition 4(e), any amount due under the Notes and not payable or paid when due by the Issuer in accordance with this Condition 4(e) will nevertheless continue to be regarded as being outstanding for the purposes of making any demand under, or enforcing any Security Interest created by the Issuer pursuant to the Security Documents (as defined in the Security Trust Deed) or the Financial Indemnity and so that interest, default interest, indemnity payments and other similar amounts payable in accordance with the Notes will continue to accrue thereon. No delay in exercising

its rights and remedies as a result of this Condition 4(e) shall operate as a permanent waiver of any of those rights or remedies.

5 Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount in respect of the relevant Specified Denomination or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon.

- (b) **Interest on Floating Rate Notes and Index Linked Interest**

- (i) **Interest Payment Dates:** Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

- (ii) **Business Day Convention:** If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

- (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;
- (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day;
- (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

- (iii) **Rate of Interest for Floating Rate Notes:** The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

- (A) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be

determined by the Calculation Agent as a rate equal to the sum of the Margin and the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions unless the context implies otherwise.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (x) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:
 - (I) (the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or
 - (II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page;

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

- (y) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (x)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (x)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country

of the Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent (the “**Principal Financial Centre**”) are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

- (iv) **Rate of Interest for Index Linked Interest Notes:** The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.
- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Optional Redemption Amounts, Rate Multipliers and Rounding:**
 - (i) If any Margin or Rate Multiplier is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
 - (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Optional Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Optional Redemption Amount shall be subject to such maximum or minimum, as the case may be.

- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.
- (h) **Calculations:** The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Note Trustee, the Security Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Note Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition and the Issuer shall publish the Rate of Interest or the Interest Amount so calculated unless the Note Trustee agrees otherwise. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.
- (j) **Determination or Calculation by Note Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption

Amount, the Note Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Note Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

- (k) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“Business Day” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency;
- (ii) in the case of euro, a day on which the TARGET System is operating (a **“TARGET Business Day”**); and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the **“Calculation Period”**):

- (i) if **“Actual/365”** or **“Actual/Actual - ISDA”** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of:
 - (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and
 - (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **“Actual/365 (Fixed)”** is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if **“Actual/360”** is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (iv) if **“30/360”**, **“360/360”** or **“Bond Basis”** is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (v) if **“30E/360”** or **“Eurobond Basis”** is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation

Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(vi) if “**Actual/Actual - ISMA**” is specified hereon:

- (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (B) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year;

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date;

“**Determination Date**” means the date specified as such hereon or, if none is so specified, the Interest Payment Date;

“**Effective Date**” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such hereon or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

“**Interest Amount**” means, in relation to an Interest Period and a Note, the amount of interest payable in respect of that Note for that Interest Period, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be;

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon;

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is sterling, (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither sterling nor euro, or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period

beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon;

“ISDA Definitions” means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

“Page” means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 (“**Reuters**”) and Moneyline Telerate (“**Moneyline Telerate**”)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate;

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

“Reference Banks” means the institutions specified as such hereon or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe);

“Relevant Financial Centre” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such hereon or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London;

“Relevant Rate” means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date;

“Relevant Time” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified hereon or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose **“local time”** means, with respect to Europe as a Relevant Financial Centre, 11.00 hours, Brussels time;

“Representative Amount” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such hereon or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

“Specified Duration” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified hereon or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 7(b)(ii); and

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

- (l) **Calculation Agent and Reference Banks:** The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall (with the prior approval of the Note Trustee) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Note Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption

- (i) Unless previously redeemed or purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified hereon) is extended pursuant to any Issuer’s option in accordance with Condition 6(d), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer’s option in accordance with Condition 6(d), each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) Early Redemption

(i) *Zero Coupon Notes*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note prior to the Maturity Date and the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face

Amount (calculated as provided below) of such Note unless otherwise specified hereon (the “**Amortised Face Amount**”).

- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) **Other Notes:** The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.
- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 30 nor more than 60 days’ notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if the Issuer satisfies the Note Trustee immediately before the giving of such notice that (i) it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due, and (iii) the Issuer will have sufficient funds to redeem the Notes in full on the date to be specified for redemption. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Note Trustee (a) a certificate signed by two Authorised Signatories of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Note Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the matters referred to in (i) and (ii) above in which event it shall be conclusive and binding on Noteholders and Couponholders and (b) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a

result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 6(c), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(c).

“**Authorised Signatory**” means any director of the Issuer or any other person or persons notified to the Note Trustee by any such director as being an Authorised Signatory from time to time.

- (d) **Redemption at the Option of the Issuer and Exercise of the Issuer’s Options:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 60 days’ irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, or exercise any Issuer’s option (as may be described hereon) in relation to, all or, if so provided, some of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the minimum nominal amount to be redeemed specified hereon and no greater than the maximum nominal amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer’s option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of the Issuer’s option, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed or in respect of which such option has been exercised, which shall have been selected by the drawing of lots in such place as the Note Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (e) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.
- (f) **Purchases:** The Issuer, the FI Provider and any of their respective subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (g) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its subsidiaries shall be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

- (b) **Registered Notes**
- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts, and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments subject to Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 9. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Note Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent in London, so long as the Notes are listed on the official list of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange plc’s market for listed securities, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Note Trustee, and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November

2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons**

- (i) Unless the Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unmaturing Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
- (ii) If the Notes so provide, upon the due date for redemption of any Bearer Note, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note that provides that the relative unmaturing Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmaturing Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
 - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, and the Receipts and the Coupons on Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax (together the “**Taxes**”), unless such withholding or deduction is required by law. In that event:

- (a) in respect of listed Notes, the Issuer shall, to the extent permitted by applicable law or regulation, pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:
 - (i) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such Taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note, Receipt or Coupon;
 - (ii) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority including if applicable making a claim under an appropriate double tax treaty;
 - (iii) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day;
 - (iv) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (v) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or

deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union;

- (b) in respect of unlisted Notes, unless and to the extent otherwise provided hereon, the Issuer will make payment subject to the appropriate deduction or withholding. Under current United Kingdom law, tax at the lower rate will generally be required to be deducted on payments of interest on unlisted Notes. No additional amounts will be paid by the Issuer in respect of any such deductions or withholdings.

As used in these Conditions, “**Relevant Date**” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date 7 days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it, and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or 5 years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events in paragraphs (a) to (c) below (each such event, an “**Event of Default**”) occurs:

- (i) (x) if it is of the nature described in paragraphs (i) to (iv) (as applicable) of the definition of FI Provider Event of Default below, the Note Trustee at its discretion may, and if so requested in writing by the holders of at least one fifth in nominal amount of the Notes or if so directed by an Extraordinary Resolution shall; or (y) if it is of the nature described in paragraph (v) of the definition of FI Provider Event of Default below or it is of the nature described in paragraph (c) below, the Note Trustee, but only if so requested in writing by the holders of at least one fifth in nominal amount of the Notes or if so directed by an Extraordinary Resolution shall (in each case, subject to being indemnified and/or secured to its satisfaction) give notice to the Issuer in writing that the Notes are, and (regardless of whether an Issuer Event of Default is also continuing or not) the Notes shall become, due and payable at their Early Redemption Amount together with accrued interest; or
- (ii) provided that a FI Provider Event of Default has occurred and is continuing if it is an Issuer Event of Default, the Note Trustee at its discretion may, and if so requested in writing by the holders of at least one fifth in nominal amount of the Notes or if so directed by an Extraordinary Resolution shall (subject to being indemnified and/or secured to its satisfaction) give notice to the Issuer in writing that the Notes are, and the Notes shall become, due and payable at their Early Redemption Amount together with accrued interest.

- (a) **FI Provider Event of Default:** a FI Provider Event of Default occurs;

- (b) **Issuer Event of Default:** an Issuer Event of Default occurs; or
- (c) **Cross Acceleration Event of Default:** a Cross Acceleration Event of Default occurs.

Definitions

For the purposes of these Conditions:

“**Comfort Letter**” means the letter addressed to, *inter alios*, the FI Provider and the Security Trustee provided by (or on behalf of) the Secretary of State in connection with the Programme and any replacement letter expressed to be a comfort letter for the purposes of the Programme;

“**Cross Acceleration Event of Default**” means any amount of Indemnified Debt is declared immediately due and payable as a result of a failure by the FI Provider (other than where such failure is caused by administrative or technical error) to pay when due any amount under the Financial Indemnity in respect of such Indemnified Debt;

“**Crown Body**” means any United Kingdom government department or other body (whether incorporated or unincorporated) whose liabilities are direct sovereign obligations of the Crown (as that term is or was used in Section 201 of the Transport Act 2000);

“**FI Provider**” means Strategic Rail Authority, except where Strategic Rail Authority’s (or any subsequent FI Provider’s) rights, obligations and liabilities under the Financial Indemnity have been transferred in accordance with the terms of the Financial Indemnity, in which case “**FI Provider**” means such transferee.

“**FI Provider Event of Default**” means in respect of the FI Provider:

- (i) **Non-payment by the FI Provider:** the FI Provider fails to pay any amount due under the Financial Indemnity in respect of any Note of that Series and such failure continues for three Business Days after the due date for payment under the Financial Indemnity;
- (ii) **FI Provider Insolvency:** any of the following occurs in respect of the FI Provider:
 - (a) it is unable to pay its debts as they fall due or, other than on a balance sheet test, is insolvent (ignoring, for the purposes of interpreting this provision, Sections 123(1)(a) and 123(2) of the Insolvency Act 1986);
 - (b) it admits its inability to pay its debts as they fall due (ignoring, for the purposes of interpreting this provision, Sections 123(1)(a) and 123(2) of the Insolvency Act 1986);
 - (c) by reason of actual financial difficulties, it suspends making payments on any of its debts if due or announces an intention to do so (other than (I) debts due to a Crown Body, non payment of which would not have a material adverse effect upon the FI Provider’s performance of its payment or other material obligations under the Financial Indemnity or (II) debts of the FI Provider which, in aggregate, total less than £10,000,000);
 - (d) by reason of actual financial difficulties, it begins negotiations with any creditor for the rescheduling (other than on a solvent basis, where “solvent” is to be construed, for the purposes of this provision, by ignoring Sections 123(1)(a) and 123(2) of the Insolvency Act 1986) of any of its indebtedness (excluding any grants); or
 - (e) a moratorium is declared in respect of any of its indebtedness;
- (iii) **Insolvency Proceedings against the FI Provider:** any of the following occurs in respect of the FI Provider:

- (a) any step is taken with a view to a composition, assignment (other than security assignments) or similar arrangement with any of its creditors other than such arrangements relating to its receipt of grants or to a transfer of the FI Provider's rights and obligations in accordance with the Financial Indemnity;
- (b) a meeting of it is convened for the purpose of considering any resolution for (or to petition for) its winding-up, administration or dissolution or any such resolution is passed;
- (c) any person presents a petition for its winding-up, administration or dissolution;
- (d) any law is passed, or any order is made for its winding-up, administration (including a railway administration) or dissolution (for the avoidance of any doubt, if any law is passed or order is made at any time which provides for the FI Provider to be wound up or dissolved only after all of its obligations and liabilities under the Financial Indemnity have been transferred to a Crown Body, the passing of such law or making of such order will not constitute a FI Provider Event of Default);
- (e) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed (in each case out of court or otherwise) in respect of it or any of its assets; or
- (f) its board members or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;

unless, in relation to a petition for winding-up, administration or dissolution presented by a creditor or the appointment of an officer described in paragraph (e), such petition or appointment is being contested in good faith and with due diligence and is discharged or struck out within 14 days;

(iv) **Invalidity, Illegality, Repudiation**

- (a) the Financial Indemnity is illegal or invalid or is alleged by the FI Provider to be illegal or invalid for any reason; or
- (b) the FI Provider expressly repudiates or cancels the Financial Indemnity or expressly states an intention to repudiate or cancel the Financial Indemnity (other than in accordance with its terms); or

(v) **Comfort Letter:** the Secretary of State makes an express statement to the effect that:

- (a) the Secretary of State will not materially observe the terms of the Comfort Letter; or
- (b) the Secretary of State intends to act in a manner which is materially inconsistent with the terms of the Comfort Letter;

and such statement is reasonably likely to have a material adverse effect on the FI Provider's payment or other material obligations under the Financial Indemnity and the Secretary of State does not, within 14 days of such statement, withdraw the statement;

provided that paragraphs (ii), (iii), and (v) above shall not apply if and for so long as the FI Provider is a Crown Body;

"Issuer Event of Default" means:

- (i) **Non-Payment:** there is a failure to pay any amount of principal or interest on any Note of that Series on the due date for payment thereof and such failure continues for a period of 14 days (and, for such purposes, failure "continues" until payment is made by the Issuer or the FI Provider);

- (ii) **Breach of other obligation:** the Issuer does not perform or comply with any one or more of its other obligations under the Notes, the Trust Deed or any other Programme Document to which it is a party and such default is, in the opinion of the Note Trustee, materially prejudicial to the Noteholders and incapable of remedy within 60 days or, if in the opinion of the Note Trustee it is materially prejudicial to the Noteholders and capable of remedy within 60 days, it is not, in the opinion of the Note Trustee, remedied within 60 days after notice of such default shall have been given to the Issuer by the Note Trustee;
- (iii) **Insolvency:** other than for the purposes of an amalgamation or reconstruction as is referred to in paragraph (iv) below, the Issuer ceases to carry on business or a substantial part of its business or the Issuer is or is deemed unable to pay its debts within the meaning of Section 123(1) or (2) of the Insolvency Act 1986 (as that section may be amended from time to time) provided that, for these purposes, Section 123(1)(a) shall have effect as if for “£750” there was substituted “£1,000,000”;
- (iv) **Winding-up:** an order is made or an effective resolution is passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Note Trustee or by an Extraordinary Resolution;
- (v) **Insolvency Proceedings and Enforcement Proceedings:** (a) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order) and such proceedings are not, in the opinion of the Note Trustee, being disputed in good faith, (b) an administration order is granted or an administrative receiver or other receiver, liquidator or other similar official is appointed in relation to the Issuer or the whole or substantially the whole of its undertaking, property or assets, (c) an encumbrancer takes possession of the whole or substantially the whole of the undertaking, property or assets of the Issuer, (d) a distress, execution, diligence or other process is levied or enforced upon or sued against all or the whole or substantially the whole of the undertaking, property or assets of the Issuer and in any of the foregoing cases (other than in relation to the circumstances described in (b) where no grace period shall apply) such order, appointment, possession or process (as the case may be) is not discharged or does not otherwise cease to apply within 14 days, or (e) the Issuer initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws (except in accordance with paragraph (iv) above) or makes a conveyance or assignment for the benefit of its creditors generally; or
- (vi) **Additional Issuer Event of Default:** such other event as is specified hereon;

“**Secretary of State**” means the Secretary of State providing the Comfort Letter or on whose behalf the Comfort Letter is provided from time to time and

11 Meetings of Noteholders, Modification, Waiver and Substitution

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined below) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10% in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment

of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Optional Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to effect the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed, (viii) to modify any of the provisions of the Financial Indemnity in a way which, in the opinion of the Note Trustee, is materially prejudicial to Noteholders, (ix) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, or (x) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders. For the purposes of these Conditions, “**Extraordinary Resolution**” means a resolution passed at a meeting duly convened and held in accordance with Schedule 3 to the Trust Deed by a majority of at least 75% of the votes cast.

- (b) **Modification of the Trust Deed:** The Note Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Note Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Note Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Note Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution in place of the Issuer or any previous substitute of any company (in any jurisdiction), as principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed are fulfilled, including a requirement that the Financial Indemnity is fully effective in relation to the obligations of the new principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Note Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Note Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Note Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Note Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 Enforcement

At any time after the Notes become due and payable, the Note Trustee may, subject to the terms of the Security Trust Deed, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes, the Receipts and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer unless the Note Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Note Trustee

The Trust Deed contains provisions for the indemnification of the Note Trustee and for its relief from responsibility. The Note Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

14 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any Series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any Series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Note Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Note Trustee so decides.

16 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of

general circulation in London (which is expected to be the Financial Times). If in the opinion of the Note Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Deed of Charge, the Security Trust Deed, the Agency Agreement, the Notes, the Receipts, the Coupons and the Talons and all matters arising from or connected therewith are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

Each Tranche of Notes in bearer form will initially be represented by a temporary Global Note or a permanent Global Note, without coupons, which will be deposited on behalf of the subscribers of the relevant Notes (i) in the case of a Tranche intended to be cleared through Euroclear and/or Clearstream, Luxembourg with the Common Depositary for Euroclear and Clearstream, Luxembourg or (ii) in the case of a Tranche intended to be cleared through an alternative clearing system, as otherwise agreed between the Issuer and the relevant Dealer, on or about the issue date of the relevant Notes. No interest will be payable in respect of a temporary Global Note except as provided below. Each Tranche of Notes in registered form will be represented by Certificates and may be represented by a Global Certificate.

Upon deposit of the temporary Global Note(s) or permanent Global Note(s) with the Common Depositary or registration of Registered Notes in the name of any nominee for Euroclear and/or Clearstream, Luxembourg and delivery of the relevant Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Any payment due in respect of a Global Note or a Global Certificate will be made to each of Euroclear, Clearstream, Luxembourg or an alternative clearing system in respect of the portion of the Global Note or Global Certificate held for its account. An accountholder with Euroclear, Clearstream, Luxembourg or an alternative clearing system with an interest in a temporary Global Note will be required, in order to have credited to its account any portion of any payment, to present a certificate in the form set out in the Agency Agreement substantially to the effect that the beneficial owner of the relevant interest in the Global Note is not within the United States or a U.S. person as such terms are defined by the U.S. Internal Revenue Code and the regulations thereunder (the “Code”).

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by other systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of such Global Certificate, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “*Summary of the Programme — Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided below, in part for Definitive Notes or, in the case of (iii) below, Registered Notes:

- (i) by the Issuer giving notice to the Noteholders, the Issuing and Paying Agent and the Note Trustee of its intention to effect such exchange;
- (ii) if the relevant Pricing Supplement provides that such permanent Global Note is exchangeable at the request of the holder, by the holder giving notice to the Issuing and Paying Agent of its election for such exchange;
- (iii) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Issuing and Paying Agent of its election to exchange the whole or a part of such permanent Global Note for Registered Notes; and
- (iv) otherwise, if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

Global Certificates

If the Pricing Supplement states that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system to the following:

- (i) if the Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) with the consent of the Issuer;

provided that, in the case of the first transfer of part of a holding pursuant to (i) above, the registered holder has given the Registrar not less than 30 days' notice at its specified office of the registered holder's intention to effect such transfer. Where the holding of Notes represented by a Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

Partial Exchange of Global Notes and Global Certificates

For so long as a permanent Global Note or Global Certificate is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note or Global Certificate will, provided that clearing will be possible, be exchangeable in part on one or more occasions (i) in the case of a permanent Global Note, for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes or (ii) for Definitive Notes or Certificates, as the case may be, if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement or Supplemental Information Memorandum) relating to Partly Paid Notes.

Delivery of Notes

On or after any due date for exchange (i) the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent and (ii) the holder of any Global Certificate may, in the case of exchange in full, surrender such Global Certificate. In exchange for any Global Note or Global Certificate, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate principal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of (a) a temporary or permanent Global Note exchangeable for Definitive Notes or Certificates and (b) a Global Certificate exchangeable for Certificates, deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. In this Offering Circular, "**Definitive Notes**" means, in relation to any temporary or permanent Global Note, the definitive Bearer Notes for which such temporary or permanent Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the temporary or permanent Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes 5 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

Amendments to Conditions

The Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any temporary or permanent Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Certificates is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a temporary or permanent Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that temporary or permanent Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each temporary or permanent Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes.

Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in the Conditions).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each minimum Denomination of Notes for which such permanent Global Note may be exchanged. (All holders of Registered Notes are entitled to one vote in respect of each Note comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant permanent Global Note.

Purchase

Notes represented by a permanent Global Note may only be purchased (if so permitted) by the Issuer if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Options

Any option of the Issuer provided for in the Conditions of any Notes, while such Notes are represented by a permanent Global Note, shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and

accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

Note Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Note Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such temporary or permanent Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

Partly-Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates, as the case may be. For so long as any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note or Global Certificate representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes or Certificates, as the case may be. In the event that any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may be entitled to forfeit such Notes and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche [, subject only to the deletion of non-applicable provisions,] is set out below:

Pricing Supplement dated [•]

NETWORK RAIL INFRASTRUCTURE FINANCE PLC

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] (the “Notes”)
under the **£20,000,000,000 Note Programme**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [] [and the supplemental Offering Circular dated []]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated []], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]

1	Issuer:	Network Rail Infrastructure Finance PLC
2	[(i)] Series Number:	[]
	[(ii)] Tranche Number:	[]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	
3	Specified Currency or Currencies:	[]
4	Aggregate Nominal Amount:	
	[(i)] Series:	[]
	[(ii)] Tranche:	[]
5	[(i)] Issue Price:	[]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
	[(ii)] Net proceeds:	[] (Required only for listed issues)]
6	Specified Denominations:	[] []

7	(i) Issue Date:	[]
	(ii) Interest Commencement Date:	[] (if different from Issue Date)
8	Maturity Date:	[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
9	Interest Basis:	[[]% Fixed Rate] [[specify reference rate] +/- []% Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (specify)] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (specify)]
11	Additional Issuer Event of Default:	[Specify]
12	Change of Interest or Redemption/Payment Basis:	[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]
13	Call Option:	Issuer Call [(further particulars specified below)]
14	Status of the Notes:	The Notes will rank <i>pari passu</i> and without any preference among themselves
15	Listing:	[Official List of the UK Listing Authority and trading on the London Stock Exchange/None]
16	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17	Fixed Rate Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Rate[(s)] of Interest:	[]% per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii) Interest Payment Date(s):	[] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of

- “Business Day”]/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [] per [] in nominal amount
- (iv) Broken Amount: [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate]
- (v) Day Count Fraction (Condition 5(k)): []
(Day count fraction should be Actual/Actual-ISMA for all fixed rate issues other than those denominated in U.S. dollars, unless requested otherwise)
- (vi) Determination Date(s) (Condition 5(k)): [] in each year. [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon] (Only relevant where Day Count Fraction is Actual/Actual ISMA)
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]

18

Floating Rate Provisions

- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Interest Period(s): []
- (ii) Specified Interest Payment Dates: []
- (iii) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (iv) Business Centre(s) (Condition 5(k)): []
- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (give details)]
- (vi) Interest Period Date(s): [Not Applicable/specify dates]
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): []
- (viii) Screen Rate Determination (Condition 5(b)(iii)(B)):
- Relevant Time: []
 - Interest Determination Date: [[] [TARGET] Business Days in

- [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]*
- Primary Source for Floating Rate: *[Specify relevant screen page or “Reference Banks”]*
 - Reference Banks (if Primary Source is “Reference Banks”): *[Specify four]*
 - Relevant Financial Centre: *[The financial centre most closely connected to the Benchmark - specify if not London]*
 - Benchmark: *[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]*
 - Representative Amount: *[Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]*
 - Effective Date: *[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]*
 - Specified Duration: *[Specify period for quotation if not duration of Interest Accrual Period]*
- (ix) ISDA Determination (Condition 5(b)(iii)(A)):
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
 - ISDA Definitions: (if different from those set out in the Conditions)
- (x) Margin(s): [+/-] []% per annum
- (xi) Minimum Rate of Interest: []% per annum
- (xii) Maximum Rate of Interest: []% per annum
- (xiii) Day Count Fraction (Condition 5(k)): []
- (xiv) Rate Multiplier: []
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []

19

Zero Coupon Note Provisions

[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Amortisation Yield (Condition 6(b)): []% per annum
- (ii) Day Count Fraction (Condition 5(k)): []
- (iii) Any other formula/basis of determining amount payable: []
- 20 **Index Linked Interest Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula: [Give or annex details]
- (ii) Calculation Agent responsible for calculating the interest due: []
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: []
- (iv) Interest Period(s): []
- (v) Specified Interest Payment Dates: []
- (vi) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (vii) Business Centre(s) (Condition 5(k)): []
- (viii) Minimum Rate of Interest: []% per annum
- (ix) Maximum Rate of Interest: []% per annum
- (x) Day Count Fraction (Condition 5(k)): []
- 21 **Dual Currency Note Provisions** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/Method of calculating Rate of Exchange: [Give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: []
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
- (iv) Person at whose option Specified Currency(ies) is/are payable: []
- (v) Day Count Fraction (Condition 5(k)): []

PROVISIONS RELATING TO REDEMPTION

22	Call Option	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Optional Redemption Date(s):	[]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[] per Note of [] specified denomination
	(iii) If redeemable in part:	
	(a) Minimum nominal amount to be redeemed:	[]
	(b) Maximum nominal amount to be redeemed:	[]
	(iv) Option Exercise Date(s):	[]
	(v) Description of any other Issuer's option:	[]
	(vi) Notice period (if other than as set out in the Conditions):	[]
23	Final Redemption Amount of each Note	[[] per Note of [] specified denomination/Other/See Appendix]
24	Early Redemption Amount	
	(i) Early Redemption Amount(s) of each Note payable on:	
	(a) redemption for taxation reasons (Condition 6(c));	[]
	(b) an FI Provider Event of Default (Condition 10);	[]
	(c) an Issuer Event of Default (Condition 10); or	[]
	(d) a Cross Acceleration Event of Default (Condition 10),	[]
	and/or the method of calculating the same (if required or if different from that set out in the Conditions):	
	(ii) Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6(c)):	[Yes/No]
	(iii) Unmatured Coupons to become void upon early redemption (Bearer Notes only) (Condition 7(f)):	[Yes/No/Not Applicable]
GENERAL PROVISIONS APPLICABLE TO THE NOTES		
25	Form of Notes:	[Bearer Notes/Exchangeable Bearer Notes/Registered Notes]

	(i) Temporary or permanent global Note/Global Certificate:	[temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes/Registered Notes on [] days' notice/at any time/in the limited circumstances specified in the permanent Global Note] [temporary Global Note/Certificate exchangeable for Definitive Notes on [] days' notice] [permanent Global Note exchangeable for Definitive Notes/Registered Notes on [] days' notice/at any time/in the limited circumstances specified in the permanent Global Note] [Global Certificate exchangeable for Certificates in the limited circumstances specified in the Global Certificate]
	(ii) Applicable TEFRA exemption:	[C Rules/D Rules/Not Applicable]
26	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	[Not Applicable/ <i>Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 17(ii), 18(iv) and 20(vii) relate</i>]
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. <i>If yes, give details</i>]
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/ <i>give details</i>]
29	Details relating to Instalment Notes:	[Not Applicable/ <i>give details</i>]
	(i) Instalment Amount(s):	[]
	(ii) Instalment Date(s):	[]
	(iii) Minimum Instalment Amount:	[]
	(iv) Maximum Instalment Amount:	[]
30	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition []] [annexed to this Pricing Supplement] apply]
31	Consolidation provisions:	[Not Applicable/The provisions [in Condition []] [annexed to this Pricing Supplement] apply]

32 Other terms or special conditions¹: [Not Applicable/*give details*]

DISTRIBUTION

33 (i) If syndicated, names of Managers: [Not Applicable/*give names*]

(ii) Stabilising Manager (if any): [Not Applicable/*give name*]

(iii) Dealer's Commission: []

34 If non-syndicated, name of Dealer: [Not Applicable/*give name*]

35 Additional selling restrictions: [Not Applicable/*give details*]

OPERATIONAL INFORMATION

36 ISIN Code: []

37 Common Code: []

38 Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]

39 Delivery: Delivery [against/free of] payment

40 The Agents appointed in respect of the Notes are: []

GENERAL

41 Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 11(a): [Not Applicable/*give details*]

42 The aggregate principal amount of Notes issued has been translated into Sterling at the rate of [], producing a sum of (for Notes not denominated in Sterling): [Not Applicable/[Sterling][]]

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the £20,000,000,000 Note Programme of Network Rail Infrastructure Finance PLC.

[STABILISING

In connection with this issue, [*insert name of Stabilising Manager*] (the “**Stabilising Agent**”) or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.]

¹ If full terms and conditions are to be used, please add the following here:

“The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary.”

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the pricing supplement.

Signed on behalf of the Issuer:

By: _____
Duly authorised

TAXATION

The comments below are of a general nature based on current United Kingdom law and Inland Revenue practice and are not intended to be exhaustive. Any prospective Noteholders should consult their professional advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes whether from the Issuer or from the FI Provider under the Financial Indemnity and the consequences of such actions under the tax laws of those countries. This summary is based upon the laws as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Interest on the Notes

The Notes issued will constitute “quoted Eurobonds” provided they are and continue to be listed on a recognised stock exchange, within the meaning of Section 841 of the Income and Corporation Taxes Act 1988. The London Stock Exchange is a recognised stock exchange for these purposes. Under an Inland Revenue published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the UK Listing Authority and are admitted to trading on the London Stock Exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom tax.

In all other cases, interest will generally be paid under deduction of income tax at the lower rate subject to the availability of other reliefs or to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Where a claim is made under the Financial Indemnity so that the SRA will put the Security Trustee in funds to pay amounts outstanding on the Notes, although the point is not beyond doubt, the position regarding withholding or deduction for or on account of tax in relation to payments of interest in that situation should be the same as where interest payments are made by the Issuer.

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual or (ii) paying amounts due on redemption of any Notes which constitute relevant discounted securities as defined in Schedule 13 to the Finance Act 1996 to or receiving such amounts on behalf of another person who is an individual, may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest or amounts and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

EU Savings Directive

The European Union has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person to or for the benefit of an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise. It is expected that a number of third countries and territories will adopt similar measures with effect from the same date.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a Dealer Agreement dated the date of this document (the “**Dealer Agreement**”) between the Issuer, the Permanent Dealers and the Arranger the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series pursuant to the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer has agreed to pay the commissions as agreed between itself and the relevant Dealer(s) in respect of each issue of Notes on a syndicated basis or otherwise. Such commissions (if any) will be stated in the dealer confirmation or subscription agreement, as the case may be.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Notes and Exchangeable Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable Tranche of Notes of which such Notes are a part, as determined and certified to the Issuer and each relevant Dealer by the Issuing and Paying Agent or, in the case of a syndicated issue, the lead manager in respect of such Tranche (the “**Distribution Compliance Period**”), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act.

In addition, until 40 days after the commencement of the offering of any identifiable Tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such Tranche of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, other than those persons, if any, retained to advise such non-U.S. person with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than those persons, if any, retained to advise such non-U.S. person, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer will be required to represent, warrant and agree that:

- (i) in relation to Notes which have a maturity of one year or more and which are to be admitted to the Official List, it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of such Notes to listing in accordance with Part VI of the FSMA, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended, or the FSMA;
- (ii) in relation to Notes which have a maturity of one year or more and which are not to be admitted to the Official List, it has not offered or sold and, prior to the expiry of a period of six months from the issue date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended;
- (iii) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (iv) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- (v) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

Other than in the United Kingdom, no action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular or any other offering material or any Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

Persons into whose hands the Offering Circular or any Pricing Supplement comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

Each Dealer has agreed that it will use its best endeavours to comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Offering Circular, any other offering material or any Pricing Supplement and neither the Issuer nor any other Dealer shall have responsibility therefor.

GENERAL INFORMATION

- (i) The admission of the Notes to the Official List and the listing of the Notes on the London Stock Exchange will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities will be admitted separately as and when issued upon submission to the UK Listing Authority and the London Stock Exchange of the relevant Pricing Supplement and other information required by the UK Listing Authority and the London Stock Exchange, subject only to the issue of a Global Note or Global Certificate (or one or more Certificates) initially representing the Notes of such Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or before 5 November 2004.
- (ii) Each of the Issuer and the SRA has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment of the Programme. The establishment of the Programme (and the issue of Notes thereunder) was authorised by the board of directors of the Issuer passed on 8 October 2004 and the entry into the agreements to which the SRA is party was authorised by a duly authorised committee of the board on 5 August 2004 and 7 October 2004 respectively.
- (iii) There has been no significant change in the financial or trading position of each of the Issuer and the SRA (excluding the Network Rail group) and no material adverse change in the financial position or prospects of each of the Issuer and the SRA (excluding the Network Rail group), in the case of the Issuer, since its date of incorporation on 31 March 2004 and, in the case of the SRA (excluding the Network Rail group), since 31 March 2004, being the date of the most recent audited financial statements.
- (iv) Neither the Issuer nor the SRA are, or have been involved in any legal or arbitration proceedings that may have, or have had during the 12 months preceding the date of this document, a significant effect on the Issuer's or the SRA's (excluding the Network Rail group) financial position nor is either of the Issuer and the SRA aware that any such proceedings are pending or threatened.
- (v) Each Bearer Note, Receipt, Coupon and Talon and Exchangeable Bearer Note issued under the D Rules will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
- (vi) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Pricing Supplement.
- (vii) Prior to the maturity of the Notes, the UK may become a participating member state in the Economic and Monetary Union and the euro may become the lawful currency of the UK. Adoption of the euro by the UK may have the result that: (a) all amounts payable in respect of sterling denominated Notes may become payable in euro; (b) the introduction of the euro as the lawful currency of the United Kingdom results in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Notes or changes in the way those rates are calculated, quoted and published or displayed; and (c) the Issuer chooses to redenominate the sterling denominated Notes into euro and take additional measures in respect of such Notes. The introduction of the euro could also be accompanied by a volatile interest rate. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Notes.

- (viii) For so long as Notes may be issued pursuant to this Offering Circular (in respect of (a) to (r)) and for so long as any listed Notes remain outstanding, from the date of the relevant document (in respect of (q)), the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer and at the specified office of the Issuing and Paying Agent:
- (a) the Trust Deed (which includes the form of the Global Notes, the Global Certificate, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);
 - (b) the Dealer Agreement;
 - (c) the Agency Agreement;
 - (d) the Financial Indemnity;
 - (e) the Security Trust Deed;
 - (f) the Deed of Charge;
 - (g) the Intercompany Loan Agreement;
 - (h) the Programme Administration Agreement;
 - (i) the Memorandum and Articles of Association of the Issuer;
 - (j) the SRA's audited consolidated financial statements for the years ended 31 March 2003 and 31 March 2004;
 - (k) Accountants' Report on the Issuer dated 28 October 2004 and any subsequent accounts of the Issuer;
 - (l) the signed Comfort Letter from the Secretary of State;
 - (m) the Certificate of the Comptroller and Auditor General to the Houses of Parliament and the Strategic Rail Authority;
 - (n) the Transport Act 2000;
 - (o) the Directions from the Secretary of State to the SRA dated 4 October 2004;
 - (p) the Corporate Officers Agreement dated 27 October 2004;
 - (q) a copy of this Offering Circular together with any document which consists of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules made under Section 74 of the FSMA; and
 - (r) each Pricing Supplement and each Subscription Agreement for Notes which are listed on the Official List and admitted to trading on the London Stock Exchange's market for listed securities.
- (ix) The Issuer has not published any financial statements as at the date of this Offering Circular.
- (x) The National Audit Office, whose address is at 157-197 Buckingham Palace Road, Victoria, London SW1W 9SP, has audited, without qualification, the consolidated financial statements of the SRA for the years ended 31 March 2004 and 31 March 2003.
- (xi) The National Audit Office has given and has not withdrawn its written consent to the inclusion in the Offering Circular of its report in the form and context in which it is included and has authorised the

contents of that part of the listing particulars for the purposes of paragraph 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

- (xii) Deloitte & Touche LLP has given and has not withdrawn its written consent to the inclusion in the Offering Circular of its report in the form and context in which it is included and has authorised the contents of that part of the listing particulars for the purposes of paragraph 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.
- (xiii) The structure of the transaction and, *inter alia*, the issue of the Notes and ratings assigned to the Notes are based on law, tax and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law, tax and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the date of this document which change might impact on the Notes and the expected payments of interest and repayment of principal.

APPENDIX I (COMFORT LETTER FROM SECRETARY OF STATE)

Below is the form of the Comfort Letter from the Secretary of State minuted in Parliament on 15 September 2004. It is expected that the Comfort Letter will be signed for and on behalf of the Secretary of State on or about 29 October 2004.

Draft Comfort Letter for the DIP and Financial Indemnity

From: David Rowlands, Permanent Secretary to the Department for Transport

To: (a) The Strategic Rail Authority (the “SRA”) and (b) the Beneficiary (as security trustee for the Secured Creditors under the Security Trust Deed).

[date]

DEBT ISSUANCE PROGRAMME FINANCIAL INDEMNITY

1. In this letter the following capitalised terms have the meaning given to them in the FI referred to below: “Beneficiary”; “FI Provider”; “Full Repayment Date”, “Indemnified Creditors”; “Indemnified Debt” and “Security Trust Deed”. “Secured Creditors” has the meaning given to it in the Security Trust Deed.
2. The Secretary of State is aware that Network Rail Infrastructure Finance PLC (the “**Issuer**”) intends to enter into documentation with the Beneficiary and the Secured Creditors for a multicurrency note issuance programme (the “**Note Programme**”) and associated interest and currency hedging together with a £3.5 billion 364 day revolving credit facility (**RCF**). The Secretary of State is also aware that the Issuer intends to enter into other forms of Indemnified Debt from time to time in the future. The Note Programme, the hedging, the RCF and the other forms of Indemnified Debt being together the Debt Issuance Programme (**DIP**). The DIP is intended to provide funding for Network Rail Infrastructure Limited’s (**NRIL**) activities permitted under its Network Licence including re-financing existing debt of the Network Rail group. Notes and other debt issued under the DIP can have a maturity date up to and including October 2052 (or such later date as the FI Provider may agree).
3. The SRA, as initial FI Provider, has agreed to make available a Financial Indemnity (the “**FI**”) in support of the Issuer’s liabilities to Indemnified Creditors under the DIP. The FI requires the FI Provider to make good any shortfall in the available funds to meet the Issuer’s debt service obligations on debt issued under the DIP in accordance with its terms. The FI is an unconditional and irrevocable obligation of the FI Provider. It will terminate on the later of 3 October 2052 (or a later date agreed by the FI Provider) and the Full Repayment Date. The Secretary of State approved the terms of the FI on [] 2004.
4. The white paper ‘The Future of Rail’ published on 15 July 2004 announced that the SRA is to be wound up and its financial obligations transferred to the Secretary of State, subject to the necessary legislation being passed. Once this occurs, the Secretary of State would become FI Provider (and thus liable as a principal). Until that time, the SRA will continue to operate under the legislative framework established by the Transport Act 2000 (the “**Act**”).
5. I am writing to help clarify the status of the SRA and the Secretary of State’s role in relation to its financing so as to ensure that it can meet its obligations under the FI. The clarification provided is relevant to all Indemnified Debt, regardless of when the issue occurs or that debt was raised.
6. The SRA is a corporate body, incorporated under Part IV of the Act. The purposes of the SRA are set out in section 205 of the Act. Among its functions it has powers under section 211 of the Act to enter into agreements for the purposes of securing the provision, improvement or development by others of any railway services or railway assets or for any other purpose relating to any railway or railway assets. Such agreements may provide for the SRA (on such terms or conditions as it considers

appropriate) to make grants or other payments or loans, to give guarantees or to invest in bodies corporate.

7. The SRA is classified for the purposes of government accounting practice as an executive Non-Departmental Public Body (**NDPB**). This means that it is a body that carries out public functions but is not a government department. Under section 201(2) of the Act the SRA is not to be regarded as a servant or agent of the Crown and its property shall not be regarded as the property of, or held on behalf of, the Crown.
8. The Secretary of State's powers in relation to the financing of the SRA are set out in Part II of Schedule 14 to the Act.
9. In the Secretary of State's opinion:
 - he has power under paragraph 7 of Schedule 14 to the Act to make to the SRA grants of such amounts, on such terms, as he may determine; and
 - he has power under paragraph 8 of Schedule 14 to the Act, to be exercised with the consent of Her Majesty's Treasury, to lend to the SRA such sums in Sterling as the SRA may require for meeting its obligations and carrying out its functions¹; and
 - he has no power outside Schedule 14 to the Act to make grants or loans to the SRA or to guarantee the performance of the SRA's obligations.
10. The provision of any funds necessary to meet the financial obligations of the SRA would be made by way of grant under paragraph 7 of Schedule 14 to the Act or by permitting the SRA to borrow in accordance with paragraph 8 of that Schedule. This would be subject to Parliament's voting the necessary funds to the Secretary of State and the consent of the Treasury, as necessary. In this respect, the comfort referred to in this letter (and a letter substantially in the form of this letter) were minuted in Parliament on [] 2004 and objections raised by Members within 14 days of them being so minuted were properly answered.
11. If the provision of funds by the Secretary of State to the SRA becomes necessary to meet the financial obligations of the SRA, the Secretary of State would take the matter before Parliament and seek the necessary approvals to ensure the provision of such funds.
12. The Secretary of State also recognises that the SRA needs to be satisfied that its obligations under the FI would be funded by the Secretary of State if called. The Secretary of State accordingly states that he would intervene in a timely manner to ensure that adequate funds would be made available to meet any financial obligations incurred by the SRA in connection with the FI and that the SRA is in a position to meet its liabilities under the FI on time and in full. In this context, the Secretary of State regards it as untenable that, where the SRA is unable to meet its financial obligations under the FI, he would stand by and do nothing.
13. You must take your own advice on the matters referred to in this letter. You will appreciate that as a matter of public law the Secretary of State cannot and must not fetter his discretion and this letter is not intended to do that. It does not create binding obligations and must not be relied upon as doing so. In particular, nothing in this letter should be construed by you as a guarantee by the Secretary of State of the obligations of the SRA, nor any undertaking as to the way in which the Secretary of State would

¹ The SRA's borrowing limit is £3 billion or such greater sum as the Secretary of State may, with the approval of HM Treasury, specify by order made by statutory instrument. Any such order shall not be made unless a draft of the statutory instrument has been laid before, and approved by resolution of, the House of Commons.

exercise his discretionary powers in any particular case. However the letter can be relied upon as a correct representation of the Secretary of State's current intention as regards the matters referred to herein.

David Rowlands

APPENDIX II (DIRECTIONS FROM SECRETARY OF STATE)

The directions set out below include reference to the documents entered into by the SRA in connection with the Programme and other Debt of the Issuer. Certain of these documents are not otherwise referred to or described in this Offering Circular as they are not material to a prospective Noteholder's assessment of an investment in the Notes. Similarly, such documents do not constitute material contracts of the Issuer and as such are not required to be put on display under the rules of the UK Listing Authority.



Department for
Transport

From the Secretary of State

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- 4 OCT 2004

NETWORK RAIL FUNDING – DEBT ISSUANCE PROGRAMME (“DIP”)

My letters of 21 June 2002 and 25 June 2003 and the Minister’s letter of 19 February 2004, issued directions under section 207(5) of the Transport Act 2000 (the Act) in relation to the SRA’s support for the Network Rail group’s funding arrangements.

I have been advised that the purpose of the proposed DIP is to provide Network Rail with a long term financing platform to fund its activities including its investment programme. . The SRA has been requested to provide certain support for the DIP, and I am writing to give the SRA, subject to section 207(4) of the Act, the following directions under section 207(5) of the Act.

On the basis that the Government is content for the SRA to enter into the documents relating to the DIP, the SRA is to enter into the following agreements:

- (1) Financial Indemnity between the SRA and HSBC Trustee (C.I.) Limited (as security trustee).
- (2) Security Trust Deed between, amongst others, the SRA, HSBC Trustee (C.I.) Limited, Network Rail Infrastructure Limited and Network Rail Infrastructure Finance PLC.
- (3) Programme Participation Agreement between the SRA, Network Rail Infrastructure Limited and Network Rail Infrastructure Finance PLC.
- (4) Use of Proceeds Side Agreement between the SRA, Network Rail Infrastructure Limited and Network Rail Infrastructure Finance PLC.

- (5) Amendment to the Co-operation Agreement between the SRA, Network Rail Infrastructure Limited and Network Rail Limited.
- (6) Letter from the SRA addressed to the dealers from time to time under the note programme under the DIP.

Your sincerely



ALISTAIR DARLING

APPENDIX III (INDEX OF DEFINED TERMS)

£	3
30/360.....	85
30E/360.....	85
360/360.....	85
Account Bank	76
Accounts Direction.....	41
Actual/360	85
Actual/365	85
Actual/365 (Fixed).....	85
Actual/Actual - ISDA	85
Actual/Actual - ISMA.....	86
Agency Agreement	76
Agents.....	76
Alternative Clearing System.....	102
Amortised Face Amount	89
Appropriate Expert	22
Authorised Signatory	90
Bank.....	90
Bearer Notes	2, 12, 77
Bond Basis.....	85
British Rail.....	34, 48
business day	79, 93
Business Day	85
C Rules	17
Calculation Agent	82
Calculation Agent(s).....	76
Calculation Period	85
Certificate	12
Certificates.....	78
Clearstream, Luxembourg.....	2

Code.....	101
Comfort Letter	27, 95
Common Depositary	2
Companies Act.....	48
Conditions.....	106
Couponholders	77
Coupons	77
Cross-Acceleration Event of Default	95
Crown Body.....	2, 95
CTRL	34
D Rules	17
Day Count Fraction.....	85
Dealer.....	11
Dealer Agreement	116
Dealers	11
Debt Service Prefunding Accounts	23
Deed of Charge	15, 76
Definitive Notes.....	103
Designated Maturity	82
Determination Date.....	86
Determination Period.....	86
DfT	26
Directions and Guidance.....	40
Distribution Compliance Period	116
dollars	3
Effective Date	86
Entrenched Right	21
Entrenched Rights Notice	22
EUR	3
euro	3
Eurobond Basis.....	85
Euroclear.....	2

Event of Default.....	94
Exchange Date	103
Exchangeable Bearer Notes	12, 77
Extraordinary Resolution.....	98
FI Counter -Indemnity	16
FI Provider.....	2, 95
FI Provider Documents.....	24
FI Provider Event of Default	95
Finance Documents	24
Financial Centres	93
Financial Indemnity	2, 77
Fitch.....	2
Floating Rate.....	82
Floating Rate Option.....	82
FOCs.....	7
FSMA	2
Full Repayment Date	24
Global Certificate.....	2
Global Certificates.....	12
Global Notes	2
holder.....	78
HSE.....	49
Indemnified Creditors	24
Indemnified Debt.....	2, 24
Insolvency Act	27
Instructing Creditor Representative	21
Instructing Creditors	24
Intercompany Loan Agreement	8, 76
interest	94
Interest Accrual Period.....	86
Interest Amount	86
Interest Commencement Date.....	86

Interest Determination Date.....	86
Interest Period.....	86
Interest Period Date	87
ISDA Definitions	87
ISDA Rate.....	82
Issuer.....	2, 76
Issuer Accounts.....	23
Issuer Event of Default	96
Issuing and Paying Agent	76
local time	87
London Stock Exchange	2
Majority Decision	24
Managed Stations.....	36
Moneyline Telerate	87
Moody's.....	2
Net Proceeds	53
Network Licence.....	36
Network Rail.....	7
Note Trustee.....	76
Noteholder	78
Noteholders.....	2
Notes.....	2, 76, 106
NR Holdco.....	33
NRIL.....	7, 76
NRIL Documents	24
Official List.....	2
OFT.....	51
ORR.....	36
Page	87
Passenger Transport Executives.....	39
Paying Agents	76
Payment Date.....	25

Permanent Dealers	11
permanent Global Note	2
Permitted Business Debt	53
pounds	3
Pricing Supplement	2
principal	94
Principal Financial Centre	83
Programme	2, 76
Programme Administration Agreement	16
Programme Document	77
Programme Documents	77
Programme Establishment Date	76
Programme Maturity Date	13
Qualifying Debt	25
Rail Regulator	50
Rail Review White Paper	8
Railways Act	34
Rate of Interest	87
Rating Agencies	2
Rating Agency	2
Receiptholders	77
Receipts	77
Record Date	91
Reference Banks	87
Register	78
Registered Notes	12, 77
Registrar	76
Regulation S	17
Regulations	3
Relevant Date	94
Relevant Financial Centre	87
Relevant Rate	87

Relevant Time.....	87
Representative Amount.....	87
Reset Date.....	82
Reuters.....	87
S&P.....	2
Scottish Executive.....	7
Secretary of State.....	2, 97
Secured Creditors.....	19
Securities Act.....	2
Security.....	22
Security Assets.....	22
Security Documents.....	20
Security Trust Deed.....	76
Security Trust Deed and Deed of Charge.....	15
Security Trustee.....	2, 76
Security Trustee Calculation Agent.....	19
Series.....	12
Specified Currency.....	87
Specified Duration.....	87
SRA.....	2
SRA Audited Accounts.....	26
SRA Grants.....	7
SRA Information.....	2
Stabilising Agent.....	3, 113
STD Proposal.....	21
STD Voting Date.....	21
sterling.....	3
STG.....	3
Super Majority Decision.....	25
Super Majority Matter.....	25
Swap Transaction.....	82
Talons.....	77

TARGET Business Day	85
TARGET System	88
Taxes	93
TEFRA.....	17
temporary Global Note	2
TOCs.....	7
Tranche	12
Transaction Documents	25
Transfer Agents.....	76
Transport Act	2
Transport White Paper	48
Trigger Date.....	10
Trust Deed	76
U.S. dollars	3
U.S.\$	3
UK Government.....	2
UK Listing Authority	2
Voted Qualifying Debt.....	25

APPENDIX IV (FINANCIAL STATEMENTS OF THE SRA)

The financial information set out below has been extracted without material adjustments from the audited consolidated financial statements of the SRA for the two years ended 31 March 2004.

These audited financial statements do not provide investors with a basis upon which to determine the SRA's ability to meet its obligations under the Financial Indemnity, which turns principally upon the UK Government's continuing provision of funding to the SRA as liabilities fall due for payment.

The financial statements take the form of group accounts, which include all subsidiaries and joint ventures.

Network Rail became a quasi subsidiary of the SRA on 3 October 2002 (see note 12(b) to the accounts) and the transactions and results of Network Rail group have been consolidated into the SRA's accounts from that date. Network Rail is the parent company of the Network Rail group which includes NRIL. No other financial information on NRIL or the Network Rail group is contained in this Offering Circular. This is because the financial position of NRIL and the Network Rail group does not affect the ability of the Issuer to meet its obligations under the Notes, the ability of the SRA to meet its obligations under the Financial Indemnity nor the rating assigned to the Programme by the Rating Agencies.

References to 'Group' within the financial statements include all entities which the SRA is required to consolidate. References to 'Authority' within the financial statements include all entities other than the Network Rail group.

CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT AND THE STRATEGIC RAIL AUTHORITY

I certify that I have audited the financial statements on pages 94¹ to 147¹ under the Transport Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 100 to 104¹.

Respective responsibilities of the Authority, the Chief Executive and Auditor

As described on page 88¹, the Authority and Chief Executive are responsible for the preparation of the financial statements in accordance with the Transport Act 2000 and the Secretary of State's directions made thereunder and for ensuring the regularity of financial transactions. The Authority and Chief Executive are also responsible for the preparation of the Foreword². My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Transport Act 2000 and the Secretary of State's direction made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword² is not consistent with the financial statements, if the Authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 90 to 92 reflects the Authority's compliance with Treasury's guidance on the Statements on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedure.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Authority and Chief Executive in the

¹ Page references in this Certificate are references to the pages of the SRA's audited consolidated financial statements for the year ended 31 March 2004 in the form made available for inspection at the registered office of the Issuer and at the specified office of the Issuing and Paying Agent (see "General Information").

² References to "Foreword" in this Certificate are references to the Foreword of the SRA's audited consolidated financial statements for the year ended 31 March 2004 in the form made available for inspection at the registered office of the Issuer and at the specified office of the Issuing and Paying Agent (see "General Information").

preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Strategic Rail Authority at 31 March 2004 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Transport Act 2000 and directions made thereunder by the Secretary of State; and
- In all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

7 July 2004

National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

Group Income and Expenditure Account for year ended 31 March 2004

		Continuing Business ¹	Acquisitions ²	Discontinued Operations ³	Total 2004	Total 2003 Restated ⁴
	Note	(£m)	(£m)	(£m)	(£m)	(£m)
Income						
Trading income	3(a)	2,271.1	133.6	70.8	2,475.5	1,146.8

¹ The continuing business relates to the Group after consolidation adjustments (excluding South Eastern Trains Limited and British Transport Police, but including Network Rail).

² The acquisition relates to South Eastern Trains Limited after consolidation adjustments (see note 1 and 12(c)).

³ Discontinued operations relates to British Transport Police after consolidation adjustments, which became a separate Authority on 1 July 2004 (see note 9).

⁴ Restatement relates to the prior year adjustment (see note 27).

		Continuing Business ¹	Acquisitions ²	Discontinued Operations ³	Total 2004	Total 2003 Restated ⁴
	Note	(£m)	(£m)	(£m)	(£m)	(£m)
Government Grant (including share of joint venture)	3(b)	3,416.3	—	1.2	3,417.5	1,886.9
Less: share in joint venture (Government grant)	3(b)	(15.7)	—	—	(15.7)	(12.7)
	4	5,671.7	133.6	72.0	5,877.3	3,021.0
Operating expenditure	5	(5,291.1)	(108.6)	(134.1)	(5,533.8)	(3,476.5)
Group surplus/(deficit)	4, 6	380.6	25.0	(62.1)	343.5	(455.5)
Surplus on disposal of fixed assets/non-operational property		61.8	—	—	61.8	35.9
Notional cost of capital		(11.5)	0.1	2.7	(8.7)	53.2
Surplus/(deficit) on ordinary activities before interest		430.9	25.1	(59.4)	396.6	(366.4)
Net Interest	7	(364.7)	0.6	3.1	(361.0)	(181.8)
Surplus/(deficit) on ordinary activities before taxation		66.2	25.7	(56.3)	35.6	(548.2)
Taxation	8	329.0	—	—	329.0	41.3
Surplus/(deficit) on ordinary activities after taxation		395.2	25.7	(56.3)	364.6	(506.9)
Less notional cost of capital		11.5	(0.1)	(2.7)	8.7	(53.2)
Result for the year	2, 24,25	406.7	25.6	(59.0)	373.3	(560.1)

Statement of Total Recognised Gains and Losses	2004	Total Restated 2003
	(£m)	(£m)
Result for the year	373.3	(560.1)
Unrealised surplus on revaluation of properties	19.1	16.0
Revaluation of network fixed assets (see note 10)	2,571.0	698.2
Deferred tax on pension asset/liability	(36.0)	89.0
Actuarial gain/(loss) recognised in the pension scheme	129.1	(217.9)
Total gain recognised relating to the year	3,056.5	25.2
Prior Year Adjustment	(40.3)	—
Total gain recognised since last annual report	3,016.2	25.2

Authority Income and Expenditure Account for year ended 31 March 2004

		Continuing Business ¹	Acquisitions ²	Discontinued Operations ³	Total 31 March 2004	Total 31 March 2003 Restated ⁴
	Note	(£m)	(£m)	(£m)	(£m)	(£m)
Income						
Trading income	3(a)	186.0	134.8	107.8	428.6	226.5
Government Grant (including share of joint venture).....	3(b)	3,416.3	—	1.2	3,417.5	1,886.9
Less: share in joint venture (Government grant)	3(b)	(15.7)	—	—	(15.7)	(12.7)
	4	3,586.6	134.8	109.0	3,830.4	2,100.7
Operating Expenditure	5	(2,506.5)	(178.5)	(134.1)	(2,819.1)	(2,868.8)
Authority surplus/(deficit)	4, 6	1,080.1	(43.7)	(25.1)	1,011.3	(768.1)
Surplus on disposal of fixed assets/non-operational property		21.8	—	—	21.8	10.9
Notional cost of capital		20.3	0.1	2.8	23.2	73.8
Surplus/(deficit) on ordinary activities before interest		1,122.2	(43.6)	(22.3)	1,056.3	(683.4)
Net Interest	7	(3.5)	1.0	5.2	2.7	(18.1)
Surplus/(deficit) on ordinary activities before taxation		1,118.7	(42.6)	(17.1)	1,059.0	(701.5)
Taxation	8	—	—	—	—	—
Surplus/(deficit) on ordinary activities after taxation		1,118.7	(42.6)	(17.1)	1,059.0	(701.5)
Less notional cost of capital		(20.3)	(0.1)	(2.8)	(23.2)	(73.8)
Result for the year	2, 24, 25	1,098.4	(42.7)	(19.9)	1,035.8	(775.3)

Statement of Total Recognised Gains and Losses

	2004	2003 Restated
	(£m)	(£m)
Result for the year	1,035.8	(775.3)
Unrealised surplus on revaluation of properties	11.7	16.0
Deferred tax on pension asset/liability	5.0	—
Actuarial loss recognised in the pension scheme	(49.5)	(122.9)
Total gain/(loss) recognised relating to the year	1003.0	(882.2)
Prior Year Adjustment	(58.3)	—
Total gain/(loss) recognised since last annual report	944.7	(882.2)

¹ The continuing business relates to the Authority after consolidation adjustments (excluding South Eastern Trains Limited and British Transport Police).

² The acquisition relates to South Eastern Trains Limited after consolidation adjustments (see note 1 and 12(c)).

³ Discontinued operations relates to British Transport Police after consolidation adjustments, which became a separate Authority on 1 July 2004 (see note 9).

⁴ Restatement relates to the prior year adjustment (see note 27).

Statement of Historical Cost Surplus and Deficits

Group

	31 March 2004	31 March 2003 Restated
	(£m)	(£m)
Surplus/(deficit) on ordinary activities before taxation.....	35.6	(548.2)
Realisation of property revaluation gains of previous years	18.8	19.5
Historical cost surplus/(deficit) on ordinary activities before taxation	54.4	(528.7)
Historical cost surplus/(deficit) for the year after taxation and cost of capital	392.1	(540.6)

Authority

	31 March 2004	31 March 2003 Restated
	(£m)	(£m)
Reported surplus/(deficit) on ordinary activities before taxation	1,059.0	(701.5)
Realisation of property revaluation gains of previous years	18.8	19.5
Historical cost surplus/(deficit) on ordinary activities before taxation	1,077.8	(682.0)
Historical cost surplus/(deficit) for the year after taxation and cost of capital	1,054.6	(755.8)

Balance Sheet as at 31 March 2004

	Note	Group		Authority	
		2004	2003 Restated	2004	2003 Restated
		(£m)	(£m)	(£m)	(£m)
Fixed assets					
Tangible Assets.....	10	18,583.3	12,803.1	85.3	39.4
Intangible Assets.....					
Concessions and software.....	11(a)	82.2	25.6	1.2	—
Goodwill.....	11(b)	109.4	105.4	8.3	—
Investment Property.....	16	139.5	138.3	61.5	67.6
		18,914.4	13,072.4	156.3	107.0
Investments					
CLRL – Share of gross assets	12(a)	4.5	2.8	4.5	2.8
CLRL – Share of gross liabilities.....	12(a)	(4.5)	(2.8)	(4.5)	(2.8)

	Note	Group		Authority	
		2004	2003	2004	2003
		(£m)	Restated (£m)	(£m)	Restated (£m)
Total fixed assets		18,914.4	13,072.4	156.3	107.0
Current Assets					
Stocks	13	79.8	37.8	3.0	—
Debtors falling due within one year	14	835.5	829.4	269.9	204.6
Debtors falling due after more than one year ..	14	75.8	85.1	50.0	56.3
Non-operational property	16	58.6	64.9	58.6	64.9
Current asset investments	15	146.6	177.6	—	—
Cash at bank and in hand		45.5	31.5	36.3	14.8
		1,241.8	1,226.3	417.8	340.6
Less:					
Creditors falling due within one year	17(a)	(7,646.7)	(10,863.4)	(367.2)	(321.2)
Net Current Assets/(Liabilities)		(6,404.9)	(9,637.1)	50.6	19.4
Total Assets less Current Liabilities		12,509.5	3,435.3	206.9	126.4
Less:					
Creditors falling due after more than one year	17(b)	(9,088.5)	(2,873.1)	(136.6)	(277.4)
Provisions for liabilities and charges	18	(704.6)	(989.3)	(452.3)	(1,422.5)
Net assets/(liabilities) excluding pension asset/(liability)		2,716.4	(427.1)	(382.0)	(1,573.5)
Pension liability	29	(237.7)	(273.9)	(125.3)	(66.9)
Pension asset.....	29	2.8	2.0	2.8	2.0
		2,481.5	(699.0)	(504.5)	(1,638.4)
Reserves					
Revaluation reserve	24(a)	3,412.0	841.1	135.8	142.9
Income and Expenditure reserve	24(b)	(551.1)	(1,036.0)	(260.9)	(1,277.2)
Revenue Grant reserve	24(c)	(386.7)	(508.7)	(386.7)	(508.7)
Capital Grant reserve	24(d)	7.3	4.6	7.3	4.6
	25	2,481.5	(699.0)	(504.5)	(1,638.4)

Signed on behalf of the Board on 5 July 2004

Richard Bowker
Chairman and Chief Executive

Doug Sutherland
Managing Director Finance and Commercial

Cash Flow Statement

Group

	Note	Continuing Business	Acquisitions	Discontinued Business	2004 Total	2003 Total
		(£m)	(£m)	(£m)	(£m)	(£m)
Net cash inflow/(outflow) from operating activities	26(a)	1,185.7	55.1	(33.5)	1,207.3	(202.9)
Returns on investments and servicing of finance						
Interest received from leasing debtors		2.7	—	—	2.7	0.5
Other interest received.....		11.4	0.2	—	11.6	11.4
Interest paid in respect of finance leases.....		(4.2)	—	(0.1)	(4.3)	(1.6)
Other interest paid		(435.4)	—	0.1	(435.3)	(185.6)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(425.5)	0.2	—	(425.3)	(175.3)
Capital expenditure and financial investment						
Purchase of assets		(3,916.7)	(1.7)	(6.3)	(3,924.7)	(1,686.3)
Sale of assets		81.8	—	—	81.8	60.0
Capital grants received		41.0	—	—	41.0	—
Capital receipts from leasing debtors.....		7.8	—	—	7.8	5.3
Net cash outflow from capital expenditure and financial investment		(3,786.1)	(1.7)	(6.3)	(3,794.1)	(1,621.0)
Acquisitions						
Net cash acquired with subsidiary undertakings.....		—	1.9	—	1.9	—
Management of liquid resources						
(Decrease)/increase in cash on deposit	26(b)	(21.6)	—	—	(21.6)	12.0
Sale of short term investments		31.0	—	—	31.0	233.4
Net cash inflow from management of liquid resources		9.4	—	—	9.4	245.4
Financing						
New Loans.....		10,351.0	—	—	10,351.0	8,438.0
Repayment of loans and leases.....		(7,357.0)	(0.8)	—	(7,357.8)	(6,654.8)
Net cash inflow/(outflow) from financing		2,994.0	(0.8)	—	2,993.2	1,783.2
Increase/(decrease) in cash at bank and in hand		(22.5)	54.7	(39.8)	(7.6)	29.4

Authority	Note	Continuing Business	Acquisitions	Discontinued Business	2004 Total	2003 Total
		(£m)	(£m)	(£m)	(£m)	(£m)
Net cash inflow/(outflow) from operating activities	26(a)	76.9	(13.6)	3.5	66.8	302.3
Returns on investments and servicing of finance						
Interest received from leasing debtors		2.7			2.7	0.5
Other interest received		4.4	0.2		4.6	2.4
Interest paid in respect of finance leases		(4.2)		(0.1)	(4.3)	(1.6)
Other interest paid		(7.4)		0.1	(7.3)	(11.9)
Net cash (outflow)/inflow returns on investments and servicing of finance		(4.5)	0.2		(4.3)	(10.6)
Capital expenditure and financial investment						
Purchase of assets		(2.7)	(1.7)	(6.3)	(10.7)	(6.5)
Sale of assets		41.8			41.8	33.0
Capital receipts from leasing debtors		0.8			0.8	2.3
Net cash inflow/(outflow) from capital expenditure and financial investment		39.9	(1.7)	(6.3)	31.9	28.8
Acquisitions						
Network Rail						(300.0)
Net cash acquired with subsidiary undertakings			1.9		1.9	
Net cash inflow/(outflow) from acquisitions			1.9		1.9	(300.0)
Management of liquid resources						
(Increase)/decrease in cash on deposit	26(b)	(21.6)			(21.6)	12.0
Sale of short term investments ...						
Net cash (outflow)/inflow from management of liquid resources		(21.6)	—		(21.6)	12.0
Financing						
New Loans						
Repayment of loans and leases ..		(74.0)	(0.8)		(74.8)	(19.8)
Net cash outflow from financing		(74.0)	(0.8)		(74.8)	(19.8)
Increase/(decrease) in cash at bank and in hand		16.7	(14.0)	(2.8)	(0.1)	12.7

Statement of Accounting Policies

(i) Form of Accounts

The SRA is required to comply with the Accounts Direction from The Secretary of State for Transport dated June 2003, as shown on page 149¹, which states that the SRA's financial statements should be presented in the form of group accounts, prepared in accordance with applicable accounting standards, and includes several additional requirements. The Group is made up of the core Authority (as defined by Transport Act 2000), all subsidiaries and joint ventures. These include Network Rail Limited, a quasi subsidiary of the SRA (see note 12(b)). The accounts have been prepared under the historical cost convention, modified by the revaluation of non-operational property, administration buildings, investment properties, and the railway network.

Under the Transport Act 2000, the Authority has had transferred to it the assets and liabilities of the British Railways Board, such that the Authority has net liabilities. The Secretary of State has provided assurance of support in relation to the liabilities transferred from the British Railways Board and those of the net liabilities of the remaining parts of the Authority. In the light of this assurance and the statement made in the foreword to the accounts, the accounts are prepared on a going concern basis.

The Accounts Direction requires the SRA to include financial statements for the parent company in line with the Companies Acts. The Direction defines the parent as the core Authority and its subsidiaries and joint ventures with the exception of Network Rail. Within these accounts the parent is called the "Authority".

The accounts for the year to 31 March 2003 are restated to reflect a change in accounting policy for pensions, following the full adoption of FRS 17, as set out in note 27.

(ii) Income

Income is the aggregate gross income of the Group and its subsidiary undertakings, after eliminating intra group income, and net of value added tax. It includes grant from the Department for Transport (DfT), and the Scottish Executive under the Transport Act 2000. With the exception of Grant in Aid (see below), income is recognised in the period to which it relates. Income excludes work performed on the Group's own assets.

Income includes passenger income attributed by the income allocation systems of Rail Settlement Plan Limited, mainly in respect of passenger receipts. Income is attributed based principally on models of certain aspects of passenger behaviours and to a lesser extent from allocations agreed for specific revenue flows. The attributed share of season ticket income is deferred within creditors and released to the Income and Expenditure Account over the life of the relevant season ticket.

(iii) Grant in Aid

Grant in Aid is the grant paid to the Authority by DfT and the Scottish Executive, as voted by the respective parliaments for the purposes of the Authority as defined by the Transport Act 2000. Grant in Aid is only received by the Authority, and is recognised on a cash basis. Grant in Aid received for capital assets, both tangible and intangible and investments, is credited to the Capital Grant reserve. Grant in Aid received relating to expenditure recognised in the Income and Expenditure Account in

¹ Page references in the section are references to the pages of the SRA's audited consolidated financial statements for the year ended 31 March 2004 in the form made available for inspection at the registered office of the Issuer and at the specified office of the Issuing and Paying Agent (See "General Information").

periods prior to the creation of the Authority is credited to the Revenue Grant reserve. All other Grant in Aid is credited to the Income and Expenditure Account.

(iv) Freight Grants

Offers are made in writing to third parties for the provision of freight grants to a maximum level subject to the meeting of specified conditions. On the offer of grants, a contractual commitment is shown by the Group. When a claim is received from a third party in accordance with the offer made, this is recognised as expenditure in the financial statements. A provision is made for grants where an obligation exists at the Balance Sheet date, if it is probable that the Group will have to pay the grant and an estimate of the amount due can be determined.

(v) Joint Venture accounting

The notes to the accounts disclose the name of joint ventures, the nature of the business and details of the shares held. The financial statements include the relevant percentage of the income and operating surplus/deficit of joint ventures, on the face of the Income and Expenditure Account, and the share of gross assets and gross liabilities on the face of the Balance Sheet. This is in accordance with FRS 9.

(vi) Incentive regimes

The contractual subsidy payable or premium receivable within each franchise agreement is included as expenditure or income respectively. These amounts include an estimate for payments and receipts due under performance regimes for the relevant financial period.

Supplements to track access charges and bonuses receivable from, less penalties payable to, customers are included in income. Additional contract amounts and bonuses payable to, less penalties receivable from, suppliers and the Office of the Rail Regulator are included in operating expenditure.

(vii) Pension Schemes

Defined Benefit Schemes

Contributions to pension schemes are paid in accordance with the rules of each scheme.

Further details are given in note 29 to the financial statements. Implementation of FRS 17 has resulted in a prior year adjustment (see note 27 for details). The pension liabilities and assets are recorded in line with FRS 17, with a valuation undertaken by an independent actuary. FRS 17 measures the value of pension assets and liabilities at the Balance Sheet date, determines the benefits accrued in the year and the interest on assets and liabilities. The value of benefits accrued is used to determine the pension charge in the Income and Expenditure Account and the interest on scheme assets and liabilities is included within interest receivable/payable. The change in the value of assets and liabilities arising from asset valuations, changes in benefits, actuarial assumption or change in the level of deficit attributable to members, is recognised in the Statement of Total Recognised Gains and Losses. The resulting pension liability or asset is shown on the Balance Sheet.

Defined Contribution Schemes

Pension contributions are charged to the Income and Expenditure Account as incurred.

(viii) Foreign Currency

Transactions in foreign currency are translated at the exchange rate ruling at the date of the transaction, unless related or matching forward foreign exchange contracts have been entered into, in which cases the rates specified in the relevant contracts are used. Monetary assets and liabilities denominated in

foreign currency are translated at the exchange rate ruling at the date of the Balance Sheet. Any exchange gain or loss is included in the Income and Expenditure Account.

(ix) Taxation

The Group and all subsidiary undertakings are assessable to taxation in accordance with the Taxes Acts and tax is recognised in the financial statements where a charge is forecast to arise.

Deferred tax is provided on timing differences arising from the different treatments for accounts and taxation purposes of transactions and events recognised in the financial statements of the current year and previous years. Deferred taxation is calculated at the rates at which it is estimated the tax will arise. Deferred taxation is not discounted.

Deferred taxation is not provided in respect of timing differences arising from the sale or revaluation of fixed assets unless, by the Balance Sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

(x) Cost of Capital

In accordance with the Accounts Direction and the 2003-04 NDPB Accounts Guidance, a charge/credit of 3.5% of net assets/liabilities of the Group is made to the surplus/deficit before interest and taxation. This is added back, to determine retained surplus/deficit on ordinary activities after taxation.

(xi) Fixed Assets

Fixed assets include land, buildings, infrastructure assets and plant and equipment required for the ongoing operations of the Group. Land and buildings which are no longer required are transferred to non-operational property and included as current assets pending disposal.

The railway network is valued at depreciated replacement cost (DRC), providing for impairment as necessary down to its value in use and depreciated on a straight line basis over its estimated remaining weighted average useful economic life. A revaluation of the assets that comprise the railway network and their estimated remaining weighted average useful economic lives is performed annually. External verification of the valuation and asset lives will be carried out, where required, at least every five years.

In considering the appropriateness of the accounting policy and taking into account the Rail Regulator's statement on the proposed acquisition of Railtrack plc by Network Rail of 27 June 2002, it was noted that DRC better reflected the economic value of the network and ensured that both the book value of fixed assets and the depreciation charge were accounted for on a consistent current cost basis.

In addition it brings the valuation of fixed assets in these accounts much closer in to line with the valuation in Network Rail Infrastructure Limited's regulatory financial statements.

Assets are capitalised at cost subject to a minimum monetary level of £1,000 except freehold office buildings which are held at valuation as set out in note (xii) below.

Depreciation

Depreciation is provided on a straight-line basis over periods representing the estimated useful economic lives of assets and commences in the accounting period following entry into service. The lives used for the major categories of assets are:

Owner Occupied Buildings	30-40 years
--------------------------	-------------

Short Leasehold Improvements	Life of Lease, or useful economic life, whichever is the shorter
Plant and Equipment	3-12 years *
Railway Network	25 years (estimated remaining weighted average useful economic life)

* This policy has been updated due to the inclusion of South Eastern Trains Limited, where the range of lives has been extended from 3-10 years to 3-12 years.

Depreciation is not provided on investment properties, in accordance with SSAP 19, which does not require depreciation of investment properties where the unexpired lease term is 20 years or more.

No depreciation is charged on capital work in progress.

(xii) Former BRB Land and Premises

Administration Buildings

Freehold office buildings are revalued annually on an individual property basis to current open market value, assuming existing use, by professional external surveyors. Where properties are revalued upwards the change in value above historic cost is taken to Revaluation reserve. Where properties are revalued downward reflecting an impairment in value, the decrease in value above the historic cost is taken back to the Revaluation reserve; the decrease in value to below the historic cost is charged to the Income and Expenditure Account. Where negative valuations exist on leasehold properties with onerous lease terms, appropriate provisions are raised.

Non-operational Property

Non-operational property is carried at estimated market value and is revalued annually on an open market basis by professional external surveyors. In order to comply with applicable Financial Reporting Standards any revaluation surplus is taken to Revaluation reserve. Where there is a permanent diminution in value the reduction in value below the original purchase price is charged to the Income and Expenditure Account. On disposal of a property the revaluation is transferred to the Income and Expenditure Account as a reserve movement. Income from disposals is accounted for when contractually due. Non operational property is held as a current asset when the decision has been made to dispose of the property. All other properties are held as investment properties.

Burdensome Structures

Burdensome structures by their nature are not easily disposed of and consequently it has been decided that the most economic way to manage these structures is to maintain them to current safety standards and dispose of them when and if an appropriate opportunity arises. Expenditure on these structures is charged to the Income and Expenditure Account as incurred.

(xiii) Intangible Assets

Concessions are valued at cost on acquisition and are amortised in equal annual amounts over the length of the underlying contractual agreement.

Goodwill arising on the acquisition of Network Rail is amortised over the estimated weighted average useful economic life of the railway network of 25 years. Goodwill arising on the acquisition of SET is amortised over 20 years reflecting the estimated useful economic life of the goodwill.

Intangible assets are amortised over the expected useful life of the asset.

(xiv) Research and Development Expenditure

Development expenditure is capitalised within fixed asset if it meets the following criteria:

- There is a clearly defined project;
- The expenditure is separately identifiable;
- The outcome of the project has been assessed with reasonable certainty as to its technical feasibility and is resulting in a product or service that will eventually be brought into use; and
- Adequate resources exist, or are expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Research and general development expenditure is charged to the Income and Expenditure Account as incurred.

(xv) Fixed Asset Investments

Fixed asset investments including investments in subsidiaries are stated at cost less provision for impairment.

(xvi) Leasing

The capital element (above the minimum monetary level of £1,000) of finance leasing obligations and hire purchase obligations for plant and equipment assets is included in fixed assets and depreciated in the same way as owned assets.

The capital element of leasing liabilities is included within creditors. The liability is stated at the deemed capital portion of the annual lease payments calculated on the annuity method, with the remainder of the annual payment, representing interest, being shown within interest payable and similar charges in the Income and Expenditure Account.

Rentals under operating leases are charged to the Income and Expenditure Account on a straight-line basis over the operational lease term.

The net investment in assets leased to third parties is included in debtors. Income from finance leases is allocated to accounting periods so as to give a constant rate of return on the net investment in the lease. These leases relate to the privatisation of British Railways Board, and were transferred as part of the set up of the SRA. No new leases are expected once these expire.

Rental income under operating leases is credited to the Income and Expenditure Account on a straight-line basis over the operational lease term.

(xvii) Grants

Grants and other contributions, other than Grant in Aid, received towards the cost of tangible fixed assets are included in creditors as deferred income and credited to the Income and Expenditure Account over the life of the asset. Grants earned for the management and provision of railway network assets are credited to the Income and Expenditure Account in the period to which they relate.

Grants paid are recognised in the Income and Expenditure Account in the period in which the activity to which they relate has been performed. A provision is made for grants where the obligation exists at the Balance Sheet date.

(xviii) Capitalised interest

Interest is capitalised during the period of construction on all projects to the extent that the project is not financed by the contractor. The average rate used during the year was 4.3%.

(xix) Long term contracts

Long term work-in-progress is stated at cost plus, where the outcome can be assessed with reasonable certainty, estimated profits attributable to the state of completion, less provision for any known or anticipated losses and progress payments receivable on account. Contract provisions in excess of amounts recoverable are included in provisions for liabilities and charges.

Advance and progress payments are included under creditors to the extent that they exceed the related work-in-progress. Work-in-progress is shown within stocks, except where it includes attributable profit when it is shown under debtors as amounts recoverable under contracts.

(xx) Stocks

Stocks and work-in-progress, other than on long term contracts, are stated at the lower of estimated replacement cost and estimated net realisable value. The value of estimated replacement cost is not considered to be materially different from cost.

Raw materials include amounts incurred in respect of the rights to utilise stocks of replacement spares.

(xxi) Investments

Current asset investments are stated at the lower of cost and net realisable value, except where they relate to investment properties.

(xxii) Employee Claims

The Authority is liable for claims arising from employees and former employees relating to occurrences during their employment by the British Railways Board. This includes industrial disease, notably asbestosis, deafness, vibration white finger, and personal accident. The industrial disease element of the provision was actuarially valued by external consultants in May 2003. The provision is revalued at three yearly intervals unless there are significant events requiring an interim review.

(xxiii) Environmental Liabilities

The Group is exposed to environmental liabilities relating to the former operations of the British Railways Board. Provision for the cost of environmental and other remedial work is made in accordance with FRS 12 where contamination is known to have occurred, except in relation to the valuation of properties, where any environmental issues are taken into account when valuing the property.

(xxiv) Accounting for PTE loans

The loans to PTEs encapsulated within deeds of assumption are included as a creditor. Grant in aid received in respect of capital repayments are credited to the Revenue Grant reserve.

(xxv) Financial instruments

Network Rail uses various derivative products, principally interest rate swaps and forward rate agreements, to manage its exposure to interest rate fluctuations on its debt portfolio. Amounts payable or receivable in respect of these transactions are recognised as adjustments to interest expense over the period of the contracts. Termination payments made or received in respect of derivatives are spread

over the life of the underlying exposure in cases where the underlying exposure continues to exist. In other cases any termination payments are taken to the Income and Expenditure Account. No transactions of a speculative or trading nature are undertaken. Financial instruments are not recognised in the Balance Sheet.

(xxvi) Property Clawback

Train Operating Companies are entitled to a share of any property gains and income (above certain thresholds) made by Network Rail. The total clawback is allocated between the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses according to the treatment of excess gains.

Notes to the Accounts

1 South Eastern Trains

On 9 November 2003 South Eastern Trains Limited (SET) took over the running of services in Kent, South East London, and parts of Sussex, from the previous operator Connex. SET is tasked with operating the services on an interim basis, until a private company is awarded the contract for the new “Integrated Kent Franchise”. This is planned to commence in 2005.

SET is a wholly owned subsidiary of South Eastern Trains (Holdings) Limited (SETH), which is itself wholly owned by the SRA. SET is run by the managing director and his executive team. Approximately 3,000 staff were transferred across from Connex to SET under the Transfer of Undertakings (Protection of Employment) Regulations 1981 (“TUPE”) legislation.

The board of SETH provides strategic guidance, direction, funding and corporate governance to SET.

SET is required to deliver all franchise commitments and obligations to the SRA, under the equivalent of a franchise agreement pursuant to section 211 of the Transport Act 2000. These arrangements are designed to enable SET to operate as a free-standing company in a similar way to other train operators.

Most of the rights, assets and liabilities of Connex were transferred to SET, a subsidiary of the SRA, under a transfer scheme in accordance with Schedule 21 of the Transport Act 2000. This transfer has been treated as an acquisition for accounting purposes, and disclosures made within these accounts are in accordance with the relevant accounting standards.

The balances transferred into SET represent the fair value of the assets and liabilities (see note 11(b)). The accounting policies adopted by Connex South Eastern are consistent with those used by the SRA Group with the exception of pensions accounting. SET has not adopted FRS 17 within its own accounts, but FRS 17 has been adopted on consolidation into the Authority accounts. Further disclosure is included in Note 29.

As a wholly owned subsidiary of the SRA the results of SET have been consolidated into the accounts of the Authority, which in turn forms part of the SRA Group.

2 Result for the Year

The purpose of this note is to set out how the Authority performed against its government targets, tracking the surplus/deficit on the Income and Expenditure Account to the performance achieved against this target. Network Rail does not form part of Government expenditure targets, and so the Group position reflected in the table below shows a combination of the Authority’s performance against its target plus the underlying level of performance within Network Rail after eliminating intragroup items.

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Result for the year	373.3	(560.1)	1,035.8	(775.3)
Timing Differences:				

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Grant in Aid.....	(31.8)	120.2	(31.8)	120.2
Provisions.....	(452.0)	637.1	(985.0)	637.1
	(483.8)	757.3	(1,016.8)	757.3
Consolidation/non cash items.....	19.1	22.5	44.6	14.5
Grant for purchase of Railtrack.....	—	(300.0)	—	—
FRS 17	17.1	7.2	17.1	7.2
Underlying (deficit)/surplus	(74.3)	(73.1)	80.7	3.7

Both the Group and the Authority have recorded a surplus for the year. These surpluses arise primarily from timing differences which come from two main sources:

- The financial statements are prepared on an accruals basis, although the Grant in Aid income recorded by the Authority has been measured in cash accounting terms. This is a requirement of government accounting, compliance with which is specified through the Accounts Direction. Government accounting guidance does not allow Grant in Aid income to be recognised until it has been voted by Parliament. This causes a mismatch between income and expenditure. Grant income will be paid in future periods as the accrued expenditure falls due.
- The financial statements include changes to existing provisions and the creation of new provisions all of which are of a non cash nature. The largest of these is the provision for network grant (see note 18(g)). In the year there was a difference between the charge to the provision, and the cash paid, in part reversing last years timing difference. Also the remainder of the network grant provision has been released following the Regulatory review which resulted in the obligations under the deed of grant ceasing. This also unwinds the timing difference relating to the provisions booked in the 2002-03 accounts.
- The government target set for 2003-04 did not include the financial consequences of introducing FRS 17. The impact on expenditure in the year has therefore been eliminated in the table above to show the underlying performance against target.

The Authority made a surplus (£80.7m) taking into account these differences, representing an improvement against the government departmental expenditure limit of £3,428.7m for the year.

The Group made a deficit (£74.3m) reflecting the underlying loss in Network Rail, after taking account of network grant, offset by the surplus within the Authority.

3 Income

(a) Trading Income

Group

	Continuing business	Acquisitions	Discontinued business	31 March 2004	31 March 2003
	(£m)	(£m)	(£m)	(£m)	(£m)
Continuing operations					
Track Access Income (Passenger and freight).....	1,902.6	—	—	1,902.6	835.0
Income from TOCs	158.6	—	—	158.6	89.9
Rents and service charges	188.8	0.6	—	189.4	104.5
Miscellaneous income.....	21.1	8.2	—	29.3	31.7
Passenger Income (fare box).....	—	124.8	—	124.8	—
	<u>2,271.1</u>	<u>133.6</u>	<u>—</u>	<u>2,404.7</u>	<u>1,061.1</u>
Discontinued operations	—	—	70.8	70.8	85.7
Total	<u>2,271.1</u>	<u>133.6</u>	<u>70.8</u>	<u>2,475.5</u>	<u>1,146.8</u>

Authority

	Continuing business	Acquisitions	Discontinued business	31 March 2004	31 March 2003
	(£m)	(£m)	(£m)	(£m)	(£m)
Continuing operations					
Income from TOCs	158.6	—	—	158.6	89.9
Rents and service charges	26.3	0.6	—	26.9	29.4
Miscellaneous income.....	1.1	9.4	—	10.5	2.5
Passenger Income (fare box).....	—	124.8	—	124.8	—
	<u>186.0</u>	<u>134.8</u>	<u>—</u>	<u>320.8</u>	<u>121.8</u>
Discontinued operations	—	—	107.8	107.8	104.7
Total	<u>186.0</u>	<u>134.8</u>	<u>107.8</u>	<u>428.6</u>	<u>226.5</u>

Track access income, both passenger and freight, is earned by Network Rail Infrastructure Limited, a wholly owned subsidiary of Network Rail Limited, through track access contracts and includes the effects of performance regimes.

Income from TOCs consists of franchise receipts arising from franchise premium arrangements within the franchise agreements, offset by the impact of the Regulator's review as described in note 5.

(b) **Government Grant**

	Group and Authority	
	31 March 2004	31 March 2003
	<i>(£m)</i>	<i>(£m)</i>
Grant received in respect of current period from DfT	3,383.0	2,158.8
Grant received in respect of current period from Scottish Executive	141.7	114.0
Grant received from Home Office	1.5	1.2
Grant received from other sources.....	0.3	—
Total Grants Received	3,526.5	2,274.0
Movement in Grant debtor/creditor from DfT	—	(31.1)
Movement in Grant debtor/creditor from Scottish Executive	3.6	(3.6)
Deferred income	(2.8)	(0.3)
Grant in respect of payments made to Revenue Grant reserve *	(122.0)	(62.5)
Grant in respect of fixed assets transferred to Capital Grant reserve *	(3.5)	(302.3)
Grant in respect of Joint Venture	15.7	12.7
Grant included within income	3,417.5	1,886.9

* see Statement of Accounting Policies note iii)

The Authority was entitled to draw down £3,459m (net of property receipts) from DfT, and £160m from the Scottish Executive, amounting to £3,619m in total. In compliance with the Financial Framework between the Authority and DfT, to the extent that the Authority receives income from property sales, this is repaid to DfT. As set out in the Statement of Accounting Policies note (iii), the Authority recognises the grant paid in respect of expenditure incurred prior to the establishment of the Authority through the Revenue Grant reserve and grant received with respect to the purchase of fixed assets in the Capital Grant reserve.

Grant for income in respect of property sales of £26.6m (2003: £24.8m) is included within the grant received in the current period from DfT. Receipts from the sale of property are paid to DfT. This is included within operating expenditure (see note 5). The net effect on the operating result for the year is £nil.

Grants from Scottish Ministers can only be used to finance the following:

- (i) passenger rail services that both start and end in Scotland and are provided under a franchise agreement;
- (ii) services that either start or end in Scotland and are provided under a franchise agreement by a person who also provides a service of the type in (i) above; and

- (iii) services of type (i) or (ii) above where the services are provided or secured by the Authority as operator of last resort.

(c) Performance regimes

The net effect of the performance regimes on the results of the Group for the year was as follows:

	Group		Authority	
	31 March 2004	31 March 2003	31 March 2004	31 March 2003
	(£m)	(£m)	(£m)	(£m)
Included in income (receipt/(payment))				
Access charge supplements	48.0	43.0	—	—
Net penalty to customers (access agreements)	(396.0)	(284.0)	—	—
Franchise agreements	4.5	4.5	4.5	4.5
Regulatory review	15.8	13.9	15.8	13.9
Included in income (note 3(a)).....	(327.7)	(222.6)	20.3	18.4
Included in expenditure (receipt/(payment))				
Franchise agreements	62.4	59.2	62.4	59.2
Regulatory review	114.4	187.7	114.4	187.7
Included in expenditure (note 5) .	176.8	246.9	176.8	246.9

Income includes only performance receipts from those TOCs who pay franchise premia. Performance receipts from all other TOCs are included as a reduction to expenditure.

4 Segmental Analysis

Group

	31 March 2004			31 March 2003 Restated		
	Total Income	Operating Surplus/ (Deficit)	Net Operating Assets/ (Liabilities)	Total Income	Operating Surplus/ (Deficit)	Net Operating Assets/ (Liabilities)
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Strategic Rail Authority	3,540.7	1,598.7	171.3	1,864.6	(180.6)	(1,003.3)
South Eastern Trains Limited.....	133.6	25.0	24.9	—	—	—
BRB (Residuary) Limited	40.3	(19.3)	(266.6)	119.1	(37.6)	(284.2)
RDDS Limited.....	0.3	—	0.1	0.3	—	0.1
DOA Limited.....	5.0	5.0	—	8.6	8.6	(2.7)
Crossrail Joint Venture.....	15.7	—	—	12.7	—	—

	31 March 2004			31 March 2003 Restated		
	Total Income	Operating Surplus/ (Deficit)	Net Operating Assets/ (Liabilities)	Total Income	Operating Surplus/ (Deficit)	Net Operating Assets/ (Liabilities)
	3,735.6	1,609.4	(70.3)	2,005.3	(209.6)	(1,290.1)
Less Crossrail Joint Venture	(15.7)	—	—	(12.7)	—	—
Discontinued operations.....	72.0	(62.1)	(111.1)	86.0	(32.2)	(54.2)
Total Authority	3,791.9	1,547.3	(181.4)	2,078.6	(241.8)	(1,344.3)
Network Rail	2,085.4	(1,203.8)	2,662.9	942.4	(213.7)	645.3
Total Group	5,877.3	343.5	2,481.5	3,021.0	(455.5)	(699.0)

Authority

	31 March 2004			31 March 2003 Restated		
	Total Income	Operating Surplus/ (Deficit)	Net Operating Assets/ (Liabilities)	Total Income	Operating Surplus/ (Deficit)	Net Operating Assets/ (Liabilities)
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Strategic Rail Authority	3,540.7	1,090.8	(134.4)	1,867.2	(726.4)	(1,301.2)
South Eastern Trains Limited.....	134.8	(43.7)	3.4	—	—	—
BRB (Residuary) Limited	40.6	(15.7)	(265.3)	119.1	(37.6)	(282.9)
RDDS Limited.....	0.3	—	0.1	0.3	—	0.1
DOA Limited.....	5.0	5.0	—	8.6	8.6	(2.7)
Crossrail Joint Venture.....	15.7	—	—	12.7	—	—
	3,737.1	1,036.4	(396.2)	2,007.9	(755.4)	(1,586.7)
Less Crossrail Joint Venture	(15.7)	—	—	(12.7)	—	—
Discontinued operations.....	109.0	(25.1)	(108.3)	105.5	(12.7)	(51.7)
Total Authority	3,830.4	1,011.3	(504.5)	2,100.7	(768.1)	(1,638.4)

Income originates wholly in the United Kingdom.

The SRA's key activities are described on pages 12 to 71 of this report.

South Eastern Trains Limited operates trains in Kent, South East London and parts of Sussex. It is a subsidiary of South Eastern Trains (Holdings) Limited, which is a wholly owned subsidiary of the SRA (see note 1). These activities were transferred from Connex South Eastern on 9 November 2003. The results therefore reflect the results in the period from 9 November 2003 to 31 March 2004.

BRB (Residuary) Limited is a wholly owned subsidiary of the SRA which is responsible for the administration of the residual assets and liabilities from the British Railways Board as set out on pages 86 to 87 of this report.

The British Transport Police is a division of the Authority which is managed on an autonomous basis and is responsible to the British Transport Police Committee. This has been treated as a discontinued operation and is described in further detail in note 9.

RDDS Limited is a wholly owned subsidiary of BRB (Residuary) Limited which is the custodian of intellectual property on railway rolling stock drawings. It generates income through granting copies of these drawings.

DOA Limited is a wholly owned subsidiary of the SRA which is responsible for the administration of deeds of assumption with the PTEs.

Network Rail Limited is treated as a quasi subsidiary of the SRA within the financial statements of the SRA (see note 12). Network Rail Limited is the holding company of Network Rail Infrastructure Limited which operates, maintains and renews the GB rail infrastructure.

The Crossrail joint venture (Cross London Rail Links Limited) is described in note 12(a).

5 Analysis of Operating Expenditure

Group

	Continuing Business	Acquisitions	Discontinued Business	31 March 2004 Total	31 March 2003 Total Restated
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Support for Passenger Rail Service (England and Wales).....	1,328.3	—	—	1,328.3	934.4
Support for Passenger Rail Service (Scotland).....	134.1	—	—	134.1	90.3
PTE Grants.....	213.7	—	—	213.7	218.4
Freight Track Access Grants	16.8	—	—	16.8	21.5
Capital Grants	32.3	—	—	32.3	537.2
Own work capitalized.....	(283.0)	—	—	(283.0)	(156.0)
Materials, supplies and services	2,429.2	57.4	34.0	2,520.6	1,448.2
Staff costs (note 6(g))	675.8	44.7	97.1	817.6	411.4
Estate management costs	39.8	4.1	—	43.9	36.8
Property sales proceeds – payments to DfT	26.6	—	—	26.6	24.8
Write back of Capital Grant	—	—	—	—	(300.0)
Amortisation of goodwill	4.3	0.2	—	4.5	2.1
Depreciation.....	695.7	2.2	3.3	701.2	221.9
Capital Grants amortised	(22.5)	—	(0.3)	(22.8)	(14.5)
Operating expenditure after exceptional items (see note 6(a)).....	<u>5,291.1</u>	<u>108.6</u>	<u>134.1</u>	<u>5,533.8</u>	<u>3,476.5</u>

Authority

	Continuing Business	Acquisitions	Discontinued Business	31 March 2004 Total	31 March 2003 Total Restated
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Support for Passenger Rail Service (England and Wales).....	1,328.3	—	—	1,328.3	934.4
Support for Passenger Rail Service (Scotland).....	134.1	—	—	134.1	90.3
PTE Grants.....	213.7	—	—	213.7	218.4
Freight Track Access Grants	16.8	—	—	16.8	21.5
Capital Grants	495.5	—	—	495.5	1,036.2

	Continuing Business	Acquisitions	Discontinued Business	31 March 2004 Total	31 March 2003 Total Restated
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Materials, supplies and services	221.1	127.3	34.0	382.4	387.6
Staff costs (note 6(g))	26.8	44.7	97.1	168.6	116.4
Estate management costs	43.4	4.1	—	47.5	36.8
Property sales proceeds – payments to DfT	26.6	—	—	26.6	24.8
Impairment of investment	—	—	—	—	300.0
Write back of Capital Grant	—	—	—	—	(300.0)
Amortisation of goodwill	—	0.2	—	0.2	—
Depreciation.....	0.7	2.2	3.3	6.2	2.9
Capital grants amortised.....	(0.5)	—	(0.3)	(0.8)	(0.5)
Operating expenditure after exceptional items (see note 6(a)).....	<u>2,506.5</u>	<u>178.5</u>	<u>134.1</u>	<u>2,819.1</u>	<u>2,868.8</u>

Subsidy payments to TOCs in the year to 31 March 2004 were £1,462.4m (2003: £1,024.7m), including performance receipts. The Rail Regulator, as part of his Regulatory review in October 2000, made changes to Network Rail Infrastructure's access charges and performance regime. In accordance with clause 18.1 of the franchise agreements with TOCs, which holds TOCs harmless from the impact of the changes arising from the Regulatory review, these changes flow back to, or from, the Authority. The subsidy disclosed includes the impacts of these changes.

Capital grants include £14.4m (2003: £27.7m) in respect of Freight Facilities Grants and £17.5m (2003: £12.5m) in respect of Cross London Rail Links Limited. Capital grant also includes £463.2m (2003: £996m) of grant to Network Rail.

Materials, supplies and services include the costs of a range of project based work undertaken by the Authority. This includes the sponsorship of infrastructure enhancement schemes £108.8m (2003: £122.4m), policy and strategy development £9.7m (2003: £24.1m) and franchise renewal of £22.3m (2003: £26.9m). It also includes £1.4bn of costs incurred by Network Rail on the operation and maintenance of the railway infrastructure.

6 Operating Result

(a) The operating result for the period is stated after charging:

	Group		Authority	
	31 March 2004	31 March 2003	31 March 2004	31 March 2003
	(£m)	(£m)	(£m)	(£m)
Auditors' remuneration and expenses.....	1.4	0.7	0.7	0.3
Depreciation on owned assets	701.2	221.9	6.2	2.9
Amortisation of grant.....	(22.8)	1.0	(0.8)	—
Amortisation of goodwill.....	4.5	2.1	0.2	—
Research and development	2.0	5.0	—	—
Hire of plant and equipment	0.2	0.1	0.2	0.1
Rolling stock lease rentals	33.7	—	33.7	—
Plant and machinery leases and rentals	5.0	3.0	—	—
Property leases and rentals	111.6	64.8	33.9	27.6
Foreign exchange losses	0.1	0.2	0.1	0.2
Exceptional items	157.0	—	—	—

The National Audit Office are the statutory auditors of the Group. The audit of the Authority is undertaken by PricewaterhouseCoopers LLP on behalf of the NAO. Network Rail is audited by Deloitte LLP. The National Audit Office have acted as principal auditors in undertaking the audit of the Group and subsidiary companies. The fees associated with the Group audit are reflected above as auditors' remuneration and expenses. In the period to 31 March 2004 PricewaterhouseCoopers LLP have undertaken non-audit work amounting to £1.0m, which comprises advice on the set up of SET, projects, financial advice and tax advice (2003: £2.2m), and Deloitte LLP have undertaken non-audit work amounting to £0.3m (2003: £0.4m).

Exceptional items have been included by Network Rail and relate to their transitional re-organisation costs and West Coast Route Modernisation abortive costs.

(b) Charitable donations

During the period the Authority made no charitable donations (2003: £nil). In the period to 31 March 2004, Network Rail made charitable donations of £1.5m (2003: £0.5m) to sponsor charitable and community related activities. No political donations were made.

(c) Statement of losses and special payments

In the period the Authority provided or wrote off debt amounting to £9.6m, which has been charged to the Income and Expenditure Account. In addition, there were other losses and special payments amounting to £0.1m. Network Rail, as a private sector body, does not report losses and special payments.

(d) **Operating lease commitments**

At the period end the Group and Authority were committed to make payments in the forthcoming year in respect of non-cancellable operating leases as follows:

	Group		Authority	
	31 March	31 March	31 March	31 March
	2004	2003	2004	2003
Land and buildings				
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Leases expiring within one year.....	2.4	2.8	1.4	0.8
Leases expiring between one and five years	9.7	10.1	4.7	3.1
Leases expiring in more than five years	29.6	31.3	13.6	15.3
	<u>41.7</u>	<u>44.2</u>	<u>19.7</u>	<u>19.2</u>

	Group		Authority	
	31 March	31 March	31 March	31 March
	2004	2003	2004	2003
Rolling stock				
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Leases expiring within one year	5.2	—	5.2	—
Leases expiring between one and five years	—	—	—	—
Leases expiring in more than five years	87.3	—	87.3	—
	<u>92.5</u>	<u>—</u>	<u>92.5</u>	<u>—</u>

	Group		Authority	
	31 March	31 March	31 March	31 March
	2004	2003	2004	2003
Other				
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Leases expiring within one year	41.0	40.0	127.4	—
Leases expiring between one and five years	8.4	8.0	1.4	—
Leases expiring in more than five years	0.1	—	28.5	—
	<u>49.5</u>	<u>48.0</u>	<u>157.3</u>	<u>—</u>

Other leases are made up primarily of contracts between South Eastern Trains Limited and Network Rail Infrastructure Limited.

Total	Group		Authority	
	31 March 2004	31 March 2003	31 March 2004	31 March 2003
	(£m)	(£m)	(£m)	(£m)
Leases expiring within one year	48.6	42.8	134.0	0.8
Leases expiring between one and five years	18.1	18.1	6.1	3.1
Leases expiring in more than five years	117.0	31.3	129.4	15.3
	<u>183.7</u>	<u>92.2</u>	<u>269.5</u>	<u>19.2</u>

(e) **Board Members of the Authority**

The salaries, allowances and severance terms of the Authority's Board Members are determined, under provisions in Schedule 14 to the Transport Act 2000, by The Secretary of State. The details below do not include the Board of Network Rail whose remuneration is disclosed within the accounts of Network Rail Limited.

	Authority 31 March 2004	Authority 31 March 2003
	(£000)	(£000)
Executive Board Members' Salaries	325	256
Benefits	68	55
Termination payments.....	—	—
Fees paid to non-Executive Board Members	167	156
	<u>560</u>	<u>467</u>
Payments to pension plans included within the above.....	20	17

	Age	Contract Expiry Dates	Salary	Taxable Benefits in kind	Total	Pension Contributions	Total
			(£000)	(£000)	(£000)	(£000)	(£000)
Richard Bowker.....	37	30 November 2006	325	48	373	20	393
Total Executive.....			325	48	373	20	393
L D Adams	64	30 November 2004	15	—	15	—	15
M Banerjee	57	30 November 2006	15	—	15	—	15
D A Begg.....	47	30 April 2005	15	—	15	—	15
W Gallagher	45	30 April 2005	15	—	15	—	15
D Grayson	48	30 April 2005	15	—	15	—	15
J Lewis-Jones.....	53	30 November 2006	15	—	15	—	15

	Age	Contract Expiry Dates	Taxable Benefits in		Pension		
			Salary	kind	Total	Contributions	Total
			(£000)	(£000)	(£000)	(£000)	(£000)
P H Kent	66	30 November 2004	19	—	19	—	19
J Mayhew	45	30 April 2005	19	—	19	—	19
D Norgrove	56	30 November 2006	15	—	15	—	15
D A Quarmby	62	30 November 2004	24	—	24	—	24
Total Non-Executive			167	—	167	—	167
Total Board Members			492	48	540	20	560

The bonus for the period to 31 March 2004 is currently being assessed. Bonus is assessed against criteria set by the Secretary of State. The Chairman is in receipt of a benefit, which is a taxable allowance (£48,000) for pension arrangements. Bonuses relating to 2002 and 2003 in the amount of £55,781 were paid in the current year, and are included in the salary amount reflected above.

The terms and conditions of Board Members' contracts are set by the Secretary of State. The terms of appointment have no provision for earlier termination except in specified circumstances, which would indicate that the Board Member would be unable to carry out his or her duties. There is no performance pay in non-Executive Board Members' contracts. A register of Board Members' interests is maintained by the Authority and details can be obtained from The Secretary, 55 Victoria Street, London, SW1H 0EU. All non-Executive Board Members are contracted for three to four days per month.

There were no payments during the year for compensation on termination of employment to Board Members.

Non-Executive Board Members do not receive any pension benefits.

(f) Staff numbers

The average number of staff employed during the year, excluding Board Members and Special Constables, was as follows:

	Average Number Employed	
	31 March 2004	31 March 2003
Strategic Rail Authority	429	382
BRB (Residuary) Limited	32	44
Rail Passengers' Council	62	58
South Eastern Trains (acquisition)	3,498	—
British Transport Police (discontinued operation)	2,242	2,271
Total Authority	6,263	2,755
Network Rail	15,015	13,543
Total Group	21,278	16,298

The numbers for British Transport Police exclude Special Constables, of which there were 173 at 31 March 2004 (85 at 31 March 2003).

In addition, there were 11 SRA Board Members (1 Executive, 10 non-Executive) at 31 March 2004 and at 31 March 2003, and 130 members of the RPC Committees and Council (139 at 31 March 2003).

In addition to the 429 average staff shown above, there were an average of 57 temporary staff covering vacant posts within the SRA. At 31 March 2003 this was 30.

(g) Total staff costs

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Salaries and wages	663.8	318.5	131.8	89.5
Employer's liability for social security costs	59.6	26.9	11.6	6.9
Employer's liability for current service pension costs	92.9	65.2	23.9	19.2
Employer's liability for past service pension costs	0.3	—	0.3	—
Other costs.....	1.0	0.8	1.0	0.8
	<u>817.6</u>	<u>411.4</u>	<u>168.6</u>	<u>116.4</u>

Included within staff costs is £42.4m relating to South Eastern Trains Limited.

The cost of temporary and contract staff for the Authority was £9.5m (2003: £7.9m).

(h) Senior staff

In accordance with the Accounts Direction, the Authority is required to make disclosures about its senior management.

	Age	Start Date of Current Role	Taxable Benefits		Pension		Total
			Salary	in kind	Contributions	Total	
			(£000)	(£000)	(£000)	(£000)	(£000)
N Newton – Deputy Chief Executive.....	57	4 September 2003	141	—	—	—	141
N Shaw – Managing Director Operations	34	8 September 2003	130	—	24	—	154
J Steer – Managing Director Strategy and Planning	55	7 May 2002	156	—	16	—	172
D Sutherland – Managing Director Finance and Commercial	51	1 July 2002	146	—	27	—	173

Age	Start Date of Current Role	Taxable Benefits		Pension		
		Salary	in kind	Total	Contributions	Total
		(£000)	(£000)	(£000)	(£000)	(£000)
Total.....		573	—	573	67	640

The Managing Director Strategy and Planning, Jim Steer, has been seconded from Steer Davies Gleave Limited for three years commencing from 7 May 2002 (see note 28). All senior managers, with the exception of Jim Steer, are employed by the Authority.

Doug Sutherland and Nick Newton are Directors of South Eastern Trains (Holdings) Limited, and Nick Newton is non-Executive chairman of South Eastern Trains Limited. No additional remuneration was paid for these responsibilities.

There are no disclosures of the cash equivalent transfer values of pension arrangements which has been introduced as part of Cabinet Office Guidance. However, this information will be provided in future years.

7 Net Interest

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Interest receivable on:				
Short term deposits.....	2.6	2.3	2.6	2.3
Leases.....	2.7	0.5	2.7	0.5
Other	21.0	9.1	2.0	0.1
Expected return on pension scheme assets	107.2	73.4	44.5	41.4
Interest receivable.....	133.5	85.3	51.8	44.3
Interest payable on				
Bank loans and overdrafts	320.0	185.6	—	—
Commercial Paper	97.0	—	—	—
Debt issued under Medium Term Note programme.....	3.0	—	—	—
Loans	25.3	27.9	7.3	11.8
Leases	4.3	1.7	4.3	1.7
Interest on pension scheme liabilities.....	114.7	65.5	35.3	34.5
Total interest payable.....	564.3	280.7	46.9	48.0
Unwinding of discount on provisions and long term creditors.....	2.2	14.4	2.2	14.4

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Interest capitalised	(72.0)	(28.0)	—	—
Interest payable and similar charges	494.5	267.1	49.1	62.4
Net interest receivable/(payable)	(361.0)	(181.8)	2.7	(18.1)

8 Taxation

The Authority and Network Rail are not part of the same tax group. In accordance with the Taxes Acts, it has been determined with the agreement of the Inland Revenue that the activity that the Authority undertakes in its statutory capacity of franchise administration and grant provision is not subject to tax. There is no tax effect in respect of transfer schemes under the Transport Act 2000 as a result of Schedule 26 of the Act and Schedule 24 of the Finance Act 1994.

The tax credit for the Group is £329.0m (2003 £41.3m).

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Analysis of credit in year				
Current UK Corporation Tax at 30%	—	—	—	—
Over provision in respect of prior years	—	6.0	—	—
Total current tax credit	—	6.0	—	—
Deferred tax at 30%				
Credit for timing differences arising in the year - other	98.0	35.3	—	—
Credit in respect of prior years	231.0	—	—	—
Total deferred tax	329.0	35.3	—	—
Tax credit on loss on ordinary activities ..	329.0	41.3	—	—

Current factors affecting the tax charge for the year:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Group		Authority	
	2004	2003 Restated	2004	2003 Restated
	(£m)	(£m)	(£m)	(£m)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(300.4)	(47.0)	4.6	—
Accelerated capital allowances	(249.1)	(107.0)	(0.1)	—
Tax losses brought forward utilised in year.	(2.6)	—	(2.6)	—
Tax losses carried forward	493.7	166.0	0.7	—
Tax losses carried back	7.0	—	—	—
Short term timing differences – goodwill amortisation	—	—	—	—
Other short term timing differences	(11.7)	(24.0)	0.3	—
Adjustments in respect of prior years	—	(6.0)	—	—
Permanent differences	63.1	12.0	(2.9)	—
Total current tax credit	—	(6.0)	—	—

The surpluses and losses used to calculate the tax charge are the reported losses of Network Rail and surpluses of the Authority before consolidation adjustments, as Network Rail and the Authority are in separate tax groups.

9 Discontinued Operations: British Transport Police

Under the Transport Act 2000 the British Transport Police transferred to the Authority on 1 February 2001. The British Transport Police are responsible for maintaining law and order throughout the railways and have similar powers and responsibilities to other Police Forces. All licensed operators, for example Network Rail Infrastructure Limited and passenger and freight operators, are required to enter into Police Service Agreements (PSAs) with the Authority for core police services provided by British Transport Police, as a condition of their licence. London Underground Limited and Docklands Light Railway have also entered into PSAs and the Authority has contracted to police the Midland Metro and Croydon Tramlink. Users of British Transport Police Services meet their due share of the costs, defined by an allocation formula, which was first set in 1993-94. The day-to-day operations of the British Transport Police are the responsibility of the Chief Constable who is accountable to the British Transport Police Committee. The duties and responsibilities of the British Transport Police are governed by the statutory BTP Scheme 1963 (as amended in 1994).

Legislation was introduced into Parliament to enable the creation of a separate Police Authority, into which the British Transport Police was transferred, on 1 July 2004. This Authority is accountable to DfT and operates on a similar basis to previously. The new body was created to enhance the status and public accountability of the British Transport Police and bring it more closely in line with Home Office police forces. It took over from the Strategic Rail Authority its responsibilities as employer of the Force and replaced the SRA-appointed BTP Committee, which was previously responsible for overseeing the BTP.

On 27 January 2004, the Secretary of State for Transport, Alistair Darling, announced the appointment of Sir Alistair Graham as Chairman of the new British Transport Police Authority. The appointment took effect on 1 July 2004 when the Authority was formally established. From 2 February 2004, Sir Alistair was a member of the British Transport Police Committee and fulfilled the role of Chairman-designate of the BTP Authority

until its formal establishment on 1 July 2004. A Deputy Chairman and a further 11 members of the Authority were also appointed with effect from 1 July 2004.

The financial results of the Authority and Group incorporate the results of the British Transport Police for the year. BTP has been disclosed as a discontinued operation within these accounts due to the transfer of activity out of the SRA on 1 July 2004.

10 Tangible Assets

Group	Land and Buildings	Plant and Equipment	IT Equipment	Railway Network	Total
<i>Costs</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Gross book values at 1 April 2003.....	33.1	6.9	16.1	12,982.7	13,038.8
Assets acquired.....	15.8	33.6	6.6	—	56.0
Additions.....	4.4	1.8	3.3	3,858.3	3,867.8
Revaluations.....	4.3	—	—	2,571.0	2,575.3
Disposals.....	(0.1)	(0.5)	—	—	(0.6)
Gross book values at 31 March 2004.....	<u>57.5</u>	<u>41.8</u>	<u>26.0</u>	<u>19,412.0</u>	<u>19,537.3</u>
Depreciation					
Accumulated depreciation at 1 April 2003	4.5	3.7	8.5	219.0	235.7
Assets acquired.....	5.9	6.7	5.0	—	17.6
Disposals.....	—	(0.5)	—	—	(0.5)
Depreciation provided during period	0.7	2.7	2.8	695.0	701.2
Accumulated depreciation at 31 March 2004 .	<u>11.1</u>	<u>12.6</u>	<u>16.3</u>	<u>914.0</u>	<u>954.0</u>
Net book values at 31 March 2004	<u>46.4</u>	<u>29.2</u>	<u>9.7</u>	<u>18,498.0</u>	<u>18,583.3</u>
Net book values at 1 April 2003	<u>28.6</u>	<u>3.2</u>	<u>7.6</u>	<u>12,763.7</u>	<u>12,803.1</u>
Authority					
<i>Costs</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Gross book values at 1 April 2003	33.1	6.9	16.1	—	56.1
Assets acquired.....	15.8	33.6	6.6	—	56.0
Additions.....	4.4	1.8	3.3	—	9.5
Revaluations.....	4.3	—	—	—	4.3
Disposals.....	(0.1)	(0.5)	—	—	(0.6)
Gross book values at 31 March 2004	<u>57.5</u>	<u>41.8</u>	<u>26.0</u>	<u>—</u>	<u>125.3</u>
Depreciation					
Accumulated depreciation at 1 April 2003	4.5	3.7	8.5	—	16.7
Assets acquired.....	5.9	6.7	5.0	—	17.6

Authority	Land and Buildings	Plant and Equipment	IT Equipment	Railway Network	Total
<i>Costs</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Disposals.....	—	(0.5)	—	—	(0.5)
Depreciation provided during period	0.7	2.7	2.8	—	6.2
Accumulated depreciation at 31 March 2004 .	11.1	12.6	16.3	—	40.0
Net book values at 31 March 2004	46.4	29.2	9.7	—	85.3
Net book values at 1 April 2003	28.6	3.2	7.6	—	39.4

The net book value of tangible fixed assets transferred into South Eastern Trains Limited on 9 November 2003 are included in the assets acquired figure (see note 11).

In the year ended 31 March 2003 Ove Arup and Partners reviewed Network Rail's engineering assessment of the replacement cost, depreciated replacement cost and useful economic lives of all the assets that comprise the railway network and have confirmed in writing that the basis upon which the assessment has been prepared is appropriate and that the resultant valuations and estimates are reasonable. The Board have reviewed the assessments in the current year and are satisfied that they remain valid and appropriate at 31 March 2004. External verification of the valuations and asset lives will be performed at least every five years.

The depreciation charge for any year is calculated using the average fixed asset net book value for the period and the estimated weighted average useful economic life of the railway network. The estimated remaining weighted average useful economic life of the network is currently 25 years.

The depreciated replacement cost of the railway network exceeds its value in use and has therefore been impaired down to its value in use (which primarily comprises the discounted future cash flows expected to arise from the Regulatory Asset Base).

The revaluation in the current year represents an increase in the railway network value in use, as a result of the Regulator allowing certain adjustments to the Regulatory Asset Base to reflect the additional expenditure on operating, maintaining and renewing the network in the periods ended 31 March 2003 and 31 March 2004.

As at 31 March 2004, the comparable net book value of the railway network according to the historic cost convention cannot be accurately determined as the information is not available.

Included within land and buildings are amounts of:

	Group		Authority	
	31 March 2004		31 March 2004	
	Gross book value	Net book value	Gross book value	Net book value
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Leasehold properties.....	10.1	6.9	10.1	6.9
Freehold properties	26.2	25.5	26.2	25.5
Short leasehold improvements	21.2	14.0	21.2	14.0
	57.5	46.4	57.5	46.4

Properties were valued on 31 March 2004 by external, qualified chartered surveyors, principally Sanderson Weatherall, on an open market existing use basis in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation manual.

The net book value of tangible fixed assets within the Authority includes an amount of £53.3m (2003: £42.6m) in respect of assets held under finance leases and hire purchase contracts. Depreciation charged in the year on assets held under finance leases was £1.3m (2003: £0.6m).

11 Intangible Fixed Assets

(a) Concessions and Software

	Group	Authority
	31 March	31 March
	2004	2004
	<u>(£m)</u>	<u>(£m)</u>
Cost		
At 1 April 2003	26.6	—
Additions	57.6	1.2
At 31 March 2004	<u>84.2</u>	<u>1.2</u>
Amortisation		
At 1 April 2003	1.0	—
Charge for the year.....	1.0	—
At 31 March 2004	<u>2.0</u>	<u>—</u>
Net book values at 31 March 2004	<u>82.2</u>	<u>1.2</u>
Net book values at 1 April 2003	<u>25.6</u>	<u>—</u>

On 26 September 2003 Network Rail (CTRL) Limited, a wholly owned subsidiary of Network Rail Limited, acquired the assets of Channel Tunnel Rail Link operations, maintenance and renewal business for cash consideration of £57m. The authority has spent £1.2m during the year on developing software for its own use.

(b) Goodwill

	Group	Authority
	31 March	31 March
	2004	2004
	<u>(£m)</u>	<u>(£m)</u>
Goodwill		
Cost		
At 1 April 2003	107.5	—

Goodwill	Group 31 March 2004	Authority 31 March 2004
	<u>(£m)</u>	<u>(£m)</u>
Acquisition of SET	8.5	8.5
At 31 March 2004	<u>116.0</u>	<u>8.5</u>
Amortisation		
At 1 April 2003	2.1	—
Charges for the year	<u>4.5</u>	<u>0.2</u>
At 31 March 2004	<u>6.6</u>	<u>0.2</u>
Net book value at 31 March 2004	<u>109.4</u>	<u>8.3</u>
Net book value at 1 April 2003	<u>105.4</u>	<u>—</u>

Network Rail

On 3 October 2002 Network Rail became a quasi subsidiary of the SRA. The following table sets out the identifiable assets and liabilities acquired and their fair value:

	Book Value	Fair Value
	<u>(£m)</u>	<u>(£m)</u>
Fixed assets	10,704.0	10,704.0
Stocks	36.0	36.0
Debtors	1,391.0	858.5
Current asset investments	<u>411.0</u>	<u>411.0</u>
Total Assets	<u>12,542.0</u>	<u>12,009.5</u>
Creditors – amounts falling due within one year	(7,002.0)	(7,212.0)
Creditors – amounts falling due after more than one year	(3,799.0)	(3,799.0)
Provisions	<u>(806.0)</u>	<u>(806.0)</u>
Total Liabilities	<u>(11,607.0)</u>	<u>(11,817.0)</u>
Net Assets	<u>935.0</u>	<u>192.5</u>
Satisfied by:		
Cash consideration		<u>300.0</u>
Goodwill		<u><u>107.5</u></u>

A fair value exercise was carried out by the SRA of Network Rail Limited's net assets. The fair value of the assets was lower than book value primarily due to the elimination of intra company debtors from

the assets, and to reflect the loan taken out by Network Rail Limited to fund the acquisition of Railtrack plc.

South Eastern Trains Limited

On 9 November 2003 South Eastern Trains Limited (SET) took over the running of services in Kent, South East London and parts of Sussex, from the previous operator Connex. SET is a wholly owned subsidiary of South Eastern Trains (Holdings) Limited (SETH), which is itself wholly owned by the SRA. The following table sets out the identifiable assets and liabilities acquired and their fair value:

	Book Value	Fair Value
	<u>(£m)</u>	<u>(£m)</u>
Fixed assets	30.4	38.4
Stocks	2.9	2.9
Debtors	54.4	54.4
Current asset investments	1.9	1.9
Total Assets	89.6	97.6
Creditors – amounts falling due within one year	(83.3)	(84.2)
Creditors – amounts falling due after more than one year	—	(7.1)
Provisions	(6.3)	(14.8)
Total Liabilities	(89.6)	(106.1)
Net Liabilities	—	(8.5)
Satisfied by:		
Cash consideration		—
Goodwill		(8.5)

A fair value exercise was carried out by the SRA of SET's net assets. The fair value adjustments relate to the recategorisation of operating leases to finance leases and the inclusion of the valuation of the pension scheme deficit. The fair value of the assets and liabilities is lower than book value primarily due to the inclusion of pension scheme balances.

Summary of Intangible Fixed Assets

	Group	
	31 March	31 March
	2004	2003
	<u>(£m)</u>	<u>Restated</u>
	<u>(£m)</u>	<u>(£m)</u>
Concessions and other assets	81.0	25.6

	Group	
	31 March 2004	31 March 2003 Restated
	<u>(£m)</u>	<u>(£m)</u>
Software	1.2	—
Goodwill	109.4	105.4
Total Net Book Values at 31 March 2004	<u>191.6</u>	<u>131.0</u>

12 Investments, Quasi Subsidiaries, and Acquisitions

Investments

(a) Subsidiaries & Joint Ventures

All the subsidiaries have an accounting year end of 31 March 2004.

The SRA has the following subsidiaries:

Company Name	Activity	Issued Share Capital	Percentage Controlled by SRA
BRB (Residuary) Limited	Custodian of all property, rights, and liabilities previously belonging to British Railways Board	1	100
Rail Documentation and Drawing Services Limited	Custodian of rolling stock drawings and documents	1	100
South Eastern Trains (Holdings) Limited	Holding company	1	100
South Eastern Trains Limited	Train Operating Company	2	100
SRA Investment Company Limited	Investment company	100	100
DOA Limited	Administers Deeds of Assumption	1	100
Rail Property Limited.....	Dormant	1	100
Cross Channel Catering Limited.....	Dormant	100	100
British Rail Limited	Dormant	1	100
British Railway Limited.....	Dormant	1	100
British Railways Board Limited.....	Dormant	1	100
Crossrail Limited.....	Dormant	2	100
Thameslink 2000 Limited	Dormant	2	100
Strategic Rail Authority Company Limited.....	Dormant	100	100
SRA Transport Limited	Dormant	5,000	100
RailDirect Limited	Dormant	1	100
British Rail Engineering Limited	Dormant	1,000,000	100
British Transport Hotels Limited	Dormant	9,582,537	100
Britravel Nominees Limited.....	Dormant	100	100
RFD (Channel Tunnel) Limited	Dormant	10,100	100
The Pullman Car Company Limited	Dormant	7,044,000	100
OQS Rail Limited	Dormant	1	100
Goldings Rail Limited.....	Dormant	1	100
Hays Rail Limited	Dormant	1	100
Abbey Rail Limited.....	Dormant	1	100
Broadway Rail Limited.....	Dormant	1	100
Orchard Rail Limited	Dormant	1	100
Strutton Rail Limited	Dormant	1	100
Westminster Rail Limited.....	Dormant	1	100

All of the shares held in subsidiaries are Ordinary shares.

The net assets and trading result of the year for active subsidiaries is shown in note 4.

Network Rail is a quasi subsidiary of the SRA (see note (b) below).

Cross London Rail Links Limited

On 31 July 2001, the SRA Investment Company, together with Transport Trading Limited, each acquired 50% of the issued share capital of Cross London Rail Links Limited. This is a joint venture for the purpose of undertaking development and design work for two new train routes across London. The Company has issued share capital of 100 shares. The Company operates as a deadlocked joint venture under an independent Chairman.

As stated in the Statement of Accounting Policies note v) the Group has drawn up its accounts in accordance with the requirements of FRS 9, using the gross equity method of joint venture accounting.

(b) Network Rail

The SRA entered into a series of agreements with the Network Rail Group (Network Rail), being Network Rail Limited, which is a company without shareholders, limited by guarantee, and its subsidiaries on 3 October 2002. These agreements were entered into in connection with the acquisition of Railtrack plc by a subsidiary of Network Rail and cover the financial support provided by the SRA to Network Rail and its subsidiaries together with their output and enhancement obligations. The agreements operate alongside the regulatory and contractual arrangements that existed between the SRA and Railtrack plc and that have now been taken over by Network Rail.

Network Rail's primary aim is to provide a safe, reliable and efficient rail infrastructure. The main focus is on the operation, maintenance and renewal of Britain's railway, and facilitating enhancements. Whilst operating on commercial lines Network Rail is a not for dividend company and all profits made will be reinvested in the industry.

Network Rail is run by a plc-style Board, which adopts best practice private sector corporate governance policies. The Board is accountable to the members of the company, who fulfil a similar role to shareholders in a plc. Members have been chosen from two main sources: industry, being representatives of rail licence holders and preferred bidders for franchises, and the public. The SRA has an automatic right of membership. Non-industry members form the majority, and have been chosen from a wide range of stakeholder groups by an independent Membership Selection Panel. Strategy, financing and decision-making are the sole preserve of the Board.

The SRA has a number of powers, rights and obligations in relation to Network Rail which include:

- the right to have a non-Executive member on the Board;
- the right to appoint a special member;
- the right for the non-Executive member to sit on the Nominations Committee, which appoints directors to the Board, and the Remuneration Committee;
- the right to remove the Chairman and Chief Executive of Network Rail in certain serious circumstances;
- the receipt of information from Network Rail;
- the provision of grant support payments;
- credit facilities together with related agreements, which in specified circumstances allow providers of finance to the Network Rail Group to recover amounts lent by them directly from the SRA. This originally enabled third party borrowing to be raised to purchase shares in Railtrack plc, re-finance debt existing at the time of acquisition, and also provides working

capital and covers legacy costs, being the ongoing costs of Network Rail Infrastructure Limited (formerly Railtrack plc) and committed enhancement projects over and above the level allowed for in the Regulator's final conclusions dated October 2000, or subsequent contracts; and

- a standby credit facility of £4bn to act as a long term contingency buffer

With the exception of the long term contingency buffer, which has a term of 50 years, the facilities expire at various dates between now and 2009. Network Rail's long term debt programme is in progress, and this will replace all of the existing credit support facilities except for the long term contingency buffer.

Given the SRA's powers, rights as summarised above, together with the financial support package that the SRA provides to Network Rail, in line with 'FRS 5: Reporting the Substance of Transactions', Network Rail has been treated as a quasi subsidiary of the SRA within the consolidated financial statements of the SRA. The consolidation of Network Rail into the SRA's accounts does not arise from the legal form, or from ownership of shares, but it occurs due to the requirements of financial reporting standards. The transactions and results of Network Rail have been consolidated into the SRA's accounts from 3 October 2002.

The Network Rail Board and management team manage Network Rail. The SRA does not have operational control over its activities as described above. Richard Bowker is the Accounting Officer for the SRA which carries a number of responsibilities as defined in the foreword to the accounts, but they do not include Network Rail. Network Rail as a private sector company does not have an Accounting Officer.

The accounts of Network Rail and Network Rail Infrastructure Limited are available on the Network Rail website (www.networkrail.co.uk).

Summary Financial Statements for Network Rail

Summary financial statements for Network Rail for the period to 31 March 2004 before consolidation adjustments and in accordance with Network Rail's accounting policies are set out below.

Profit and Loss Account

	Year ended 31 March 2004	Period ended 31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
Turnover	2,606.0	1,443.0
Operating loss	(710.0)	(17.0)
Interest	(347.0)	(165.0)
Profit on the sale of properties	40.0	25.0
Loss on ordinary activities before taxation	(1,017.0)	(157.0)
Tax credit on loss on ordinary activities	329.0	41.0
Loss for the period	<u>(688.0)</u>	<u>(116.0)</u>

Statement of Total Recognised Gains and Losses	Year ended 31 March 2004	Period ended 31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
Loss for the period	(688.0)	(116.0)
Revaluation of the railway network	2,571.0	698.0
Revaluation of investment properties.....	7.0	—
Total recognised gains and losses for the period	1,890.0	582.0

Note of Historical Cost Profits and Losses	Year ended 31 March 2004	Period ended 31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
Loss on ordinary activities before taxation	(1,017.0)	(157.0)
Reduction in profit on sale of properties on an historical cost basis..	—	(3.0)
Historical cost loss on ordinary activities before taxation	(1,017.0)	(160.0)
Historical cost loss for the period accumulated after taxation.....	(688.0)	(119.0)

The additional depreciation charge on a historical cost basis cannot be accurately determined as the information is not available.

Balance sheet	31 March 2004		31 March 2003	
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Tangible fixed assets	18,576.0		12,835.0	
Intangible fixed assets	81.0		25.0	
Negative goodwill	(400.0)		(417.0)	
Total Fixed assets		18,257.0		12,443.0
Stock.....	77.0		38.0	
Debtors	687.0		1,725.0	
Current asset investments	147.0		178.0	
Cash at bank and in hand.....	8.0		8.0	
Total current assets	919.0		1949.0	
Creditors: Amounts falling due within one year	(7,365.0)		(10,570.0)	
Net current liabilities		(6,446.0)		(8,621.0)
Total assets less current liabilities		11,811.0		3,822.0
Creditors: Amounts falling due		(8,863.0)		(2,468.0)

Balance sheet	31 March 2004		31 March 2003	
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
after more than one year				
Provisions		(476.0)		(772.0)
Net Assets		<u>2,472.0</u>		<u>582.0</u>
Revaluation reserve		3,276.0		698.0
Profit and Loss Account		(804.0)		(116.0)
Capital and reserves		<u>2,472.0</u>		<u>582.0</u>

	Year ended 31 March 2004		Period ended 31 March 2003	
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Net cash inflow/(outflow) from operating activities		1,078.0		(14.0)
Net interest paid	(421.0)		(208.0)	
Net cash outflow from returns on investments and servicing of finance		(421.0)		(208.0)
Capital expenditure and financial investment				
Purchases of tangible fixed assets ...	(3,844.0)		(1,651.0)	
Sale of assets	40.0		27.0	
Capital receipts from leasing debtors	7.0		3.0	
Capital grants received	41.0		25.0	
Net cash outflow from capital expenditure and financial investment		(3,756.0)		(1,596.0)
Acquisitions and Disposals		—		(210.0)
Sale of short term Investments		31.0		233.0
Financing				
New loans	10,351.0		8,438.0	
Repayment of loans and leases	(7,283.0)		(6,635.0)	
Net cash inflow from financing		<u>3,068.0</u>		<u>1,803.0</u>
Increase in cash and cash equivalents		<u>—</u>		<u>8.0</u>

(c) Acquisitions

The activities of Connex South Eastern were transferred into South Eastern Trains Limited on 9 November 2003 and the transactions and results of South Eastern Trains Limited are included in the

consolidated financial statements of the Authority for the period ended 31 March 2004. From the period 9 November 2003 income of £134.8m, and an operating deficit of £43.7m are included in the Authority's consolidated Income & Expenditure Account as acquisitions. The acquisition method of accounting has been used.

Summary Financial Statements for South Eastern Trains Limited

Financial information for South Eastern Trains Limited for the period to 31 March 2004 before consolidation adjustments and in accordance with South Eastern Trains Limited accounting policies is set out below.

	Period ended 31 March 2004
	<i>(£m)</i>
Turnover	194.2
Operating profit	0.1
Interest	0.1
Profit on ordinary activities before taxation	0.2
Tax	—
Profit for the period	0.2

	Period ended 31 March 2004
	<i>(£m)</i>
Profit for the period	0.2
Actuarial deficit on pension.....	—
Related deferred tax.....	—
Total recognised gains and losses for the period	0.2

Balance sheet	31 March 2004	
	<i>(£m)</i>	<i>(£m)</i>
Tangible fixed assets	37.8	
Intangible fixed assets	8.3	
Total Fixed assets		46.1
Stock.....	3.0	
Debtors	41.4	
Cash at bank and in hand.....	31.8	
Total current assets	76.2	
Creditors: Amounts falling due within one year.....	(100.5)	
Net current liabilities		(24.3)
Total assets less current liabilities		21.8

Balance sheet**31 March 2004**

	<u>(£m)</u>	<u>(£m)</u>
Creditors: Amounts falling due after more than one year		(6.5)
Provisions		(15.1)
Net Assets		0.2
Profit and Loss Account		0.2
Capital and reserves		0.2

South Eastern Trains Limited have used the exemption in FRS 1 for producing a cash flow statement in their financial statements on the grounds that the ultimate parent undertaking produces a consolidated cash flow statement. Accordingly, no cash flow statement for South Eastern Trains Limited has been included within these accounts.

13 Stocks

	Group		Authority	
	2004	2003	2004	2003
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Raw materials and consumables	50.8	24.8	3.0	—
Properties in the course of development	1.0	1.0	—	—
Long term contract balances:				
Net cost	35.0	18.0	—	—
Applicable payments on account	(7.0)	(6.0)	—	—
	79.8	37.8	3.0	—

14 Debtors

	Group		Authority	
	2004	2003	2004	Restated 2003
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Trade debtors	266.1	385.6	59.5	33.4
Capital grants receivable	3.0	1.0	—	—
Leasing debtors	0.2	—	0.2	—
Other debtors	242.6	192.0	11.6	—
Prepayments and accrued income	320.6	243.8	198.6	171.2
Net investment in finance leases	3.0	7.0	—	—
Debtors falling due within one year	835.5	829.4	269.9	204.6
Debtors falling due after more than one	75.8	85.1	50.0	56.3

	Group		Authority	
	2004	2003	2004	Restated 2003
	(£m)	(£m)	(£m)	(£m)
year				
	911.3	914.5	319.9	260.9

There are amounts due to the Authority from the franchisee in Scotland of £2.8m (2003: £2.0m) in relation to the franchise agreement.

Debtors of the Authority and the Group include prepayments and accrued income of £35.2m (2003: £125.7m) due from TOCs in respect of clause 18.1 of the franchise agreement.

Aggregate rentals receivable in respect of finance leases for the Authority were £50.2m of which £50.0m is due after more than one year. This amount is owed by Freightliner (1995) Limited. £46.9m of the debt falls due between 2011 and 2016. Since its privatisation in 1996, Freightliner (1995) Limited has required revenue funding support from government. No provision has been made against this debt.

15 Current asset investments

	Group		Authority	
	2004	2003	2004	2003
	(£m)	(£m)	(£m)	(£m)
Short term money market deposits	146.6	177.6	—	—
	146.6	177.6	—	—

16 Non-operational property

BRB (Residuary) Limited holds a portfolio of land which was not required for railway operational purposes and accordingly was retained by British Railways Board during the privatisation process. This land was transferred to BRB (Residuary) Limited under a transfer scheme in accordance with the Railways Act 1993. It is the intention to dispose of this property where it has no future railway operational purpose.

The Authority has put in place a process to consider the likely usefulness of land for railway purposes before releasing it for sale. As at 31 March 2004, 128 properties (2003: 66 properties) with a value of £58.6m (2003: £64.9m) at current market prices have been released for sale. This property is held as a current asset pending sale.

All other land is held as investment property pending a decision about its future use.

In addition Network Rail has investment properties which comprise offices and other non-specialist properties that are not occupied by Network Rail where the interest is completely separable from the railway infrastructure. These are held for their investment potential and are all included as investment properties. Investment properties were valued on 31 March 2004 by external qualified chartered surveyors, C B Richard Ellis, on an open market existing use basis in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation manual. The remaining properties were valued by the Director of Sales, Railway Estates, a Chartered Surveyor.

Movement on the portfolio during the period

	Group		Authority	
	31 March 2004	31 March 2003	31 March 2004	31 March 2003
	(£m)	(£m)	(£m)	(£m)
Opening Value 1 April 2003.....	203.2	137.1	132.5	137.1
Additions	—	70.7	—	—
Revaluation	14.8	12.3	7.5	12.3
Disposals.....	(19.9)	(16.9)	(19.9)	(16.9)
Closing Value 31 March 2004	198.1	203.2	120.1	132.5

	Investment Property	Current Asset	Total
	(£m)	(£m)	(£m)
Opening Value 1 April 2003.....	67.6	64.9	132.5
Revaluation	6.9	0.6	7.5
Transfer from Investment Property	(13.0)	13.0	—
Disposals	—	(19.9)	(19.9)
Authority – closing value 31 March 2004	61.5	58.6	120.1
Opening Value 1 April 2003.....	138.3	64.9	203.2
Revaluation	14.2	0.6	14.8
Transfer from Investment Property	(13.0)	13.0	—
Disposals	—	(19.9)	(19.9)
Group – closing value 31 March 2004	139.5	58.6	198.1

17 Creditors

(a) Creditors falling due within one year

	Group		Authority	
	2004	2003	2004	2003
	(£m)	(£m)	(£m)	(£m)
Bank loans and overdrafts	1,290.0	8,499.0	—	—
Commercial Paper (less unamortised discount of £33m)	3,926.0	—	—	—
Receipts in advance	89.3	64.0	42.3	40.0
Trade creditors	635.5	713.1	51.3	25.1

	Group		Authority	
	2004	2003	2004	2003
	(£m)	(£m)	(£m)	(£m)
Accruals and deferred income	1,410.6	1,357.6	149.5	217.7
Payroll, taxation and social security....	46.7	9.6	19.3	9.2
Interest accrued on capital liabilities ..	44.5	134.8	1.5	2.8
Leasing liabilities	4.8	3.5	4.8	3.5
PTE Loans.....	89.0	15.0	89.0	15.0
Other	110.3	56.8	9.5	7.9
Capital grants deferred income.....	—	10.0	—	—
	7,646.7	10,863.4	367.2	321.2

There are amounts due to the Scottish Executive of £nil (2003: £3.6m). There are no amounts due to the franchisee in Scotland (2003: £nil).

Accruals and deferred income within the Authority and the Group include amounts due to TOCs in respect of clause 18.1 (see note 5), rents received in advance and accruals for valuations of work undertaken on infrastructure projects.

(b) Creditors falling due after more than one year

	Group		Authority	
	2004	2003	2004	2003
	(£m)	(£m)	(£m)	(£m)
Bank loan	1,408.0	1,440.0	—	—
Debt issued under Medium Term Note programme (less unamortised discount of £31m)	6,425.0	—	—	—
PTE loans	68.9	212.7	68.9	212.7
Leasing liabilities	108.7	105.7	67.7	64.7
Other accruals and deferred income	5.0	13.0	—	—
Capital grants deferred income.....	1,072.9	1,101.7	—	—
	9,088.5	2,873.1	136.6	277.4

(c) **Repayment of loans and leasing liabilities included above**

	Group		Authority	
	31 March 2004		31 March 2004	
	Loans	Leases	Loans	Leases
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Due for repayment in:				
One year or less	5,305.0	4.8	89.0	4.8
Between one and two years	1,033.9	10.2	5.9	9.2
Between two and five years	5,775.4	7.8	23.4	5.8
In five years or more	1,092.6	90.7	39.6	52.7
	13,206.9	113.5	157.9	72.5

Deeds of Assumption with PTEs are repayable by instalments over a maximum of 33 years from date of inception, at variable interest rates based each year on the rate for loans from the National Loans Fund with one year maturity. The interest rate for 2003-04 was 4.0% (2002-03 5.125%). All PTE Deeds of Assumption except those held by Strathclyde PTE were repaid on 1 April 2004.

(d) **Network Rail debt due for repayment in more than one year**

Bank loans are analysed as follows:

	Group	
	31 March 2004	31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
HSBC Bank due 2017 repayable by instalments.....	217.0	221.0
Barclays Bank due 2017 repayable by instalments	60.0	62.0
Royal Bank of Scotland due 2017 repayable by instalments	70.0	71.0
European Investment Bank due 2007.....	100.0	100.0
6.42% European Investment Bank due 2009	104.0	107.0
6.42% European Investment Bank due 2011	106.0	107.0
5.77% European Investment Bank due 2012	313.0	317.0
5.57% European Investment Bank due 2013	208.0	210.0
Kreditanstalt f r Wiederaufbau due 2013	130.0	145.0
Kreditanstalt f r Wiederaufbau due 2015	100.0	100.0
	1,408.0	1,440.0

Debt issued under the Medium Term Note programme is analysed as follows:

	Group	
	31 March 2004	31 March 2003
	(£m)	(£m)
4 % sterling Medium Term Note due 2009 (less unamortised discount of £15m)	2,235.0	—
2 % US dollar Medium Term Note due 2008 (less unamortised discount of £3m)	685.0	—
3 % euro Medium Term Note due 2009 (less unamortised discount of £11m).....	1,668.0	—
Floating rate sterling Medium Term Note due 2006 (less unamortised discount of £1m).....	999.0	—
Floating rate euro Medium Term Note due 2007 (less unamortised discount of £1m)	838.0	—
	6,425.0	—

18 Provisions for Liabilities and Charges

Group	Note	Provision 1	Utilised	Unwind	Revised	Charged/	Provision
		April 2003					Discount
		Restated		Discount		(Released)	2004
		(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Channel Tunnel.....	18 (a)	54.5	(27.4)	1.2	(0.5)	2.1	29.9
Property	18 (b)	99.0	(8.1)	0.4	4.3	17.1	112.7
Employee.....	18 (c)	263.0	(11.2)	0.4	—	—	252.2
Business sales and other ..	18 (d)	76.6	(76.2)	0.2	(0.1)	146.2	146.7
Pension obligations	29	4.0	(0.3)	—	—	0.2	3.9
Redundancy	18 (e)	1.2	(0.6)	—	—	1.1	1.7
Deferred tax	23	453.0	(328.7)	—	—	—	124.3
Environmental liabilities..	18 (f)	38.0	(4.8)	—	—	—	33.2
Group.....		989.3	(457.3)	2.2	3.7	166.7	704.6

Authority	Note	Provision 1	Utilised	Unwind	Revised	Charged/	Provision
		April 2003					Discount
		Restated		Discount		(Released)	2004
		(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Channel Tunnel.....	18 (a)	54.5	(27.4)	1.2	(0.5)	2.1	29.9
Property	18 (b)	99.0	(8.1)	0.4	4.3	17.1	112.7
Employee.....	18 (c)	263.0	(11.2)	0.4	—	—	252.2
Business sales and other	18 (d)	15.8	(4.2)	0.2	(0.1)	40.2	51.9

Authority	Note	Provision 1	Utilised	Unwind Discount	Revised	Charged/ (Released)	Provision
		April 2003 Restated			Discount Rate		31 March 2004
		(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Pension obligations	29	4.0	(0.3)	—	—	0.2	3.9
Redundancy	18 (e)	1.2	(0.6)	—	—	1.1	1.7
Network Grant	18 (g)	985.0	(1,448.2)	—	—	463.2	—
Authority		1,422.5	(1,500.0)	2.2	3.7	523.9	452.3

(a) Channel Tunnel

On 22 November 1997 the British Railways Board sold Railfreight Distribution (RfD) to East and West Railway Limited, a wholly owned subsidiary of English Welsh and Scottish Railways Limited. As part of the sale the British Railways Board gave the purchaser certain warranties and indemnities for which the provision totals £29.9m (2003:£54.5m) and which were transferred to BRB (Residuary) Limited on 1 February 2001. For the period from April 2005 to the end of the minimum usage period in November 2006 the Authority is only liable if EWS cease the Channel Tunnel operations of Railfreight Distribution. The charges are paid partly in sterling and partly in euros on a roughly equal basis and increase each year in line with UK and French retail price indices respectively. Provisions for these commitments have been discounted using appropriate Government gilt rates in line with FRS 12. The movement in discount rate reflects changes in gilt rates during the period.

(b) Property

The property portfolio, which has been inherited from the British Railways Board by BRB (Residuary) Limited, includes a number of leased administration buildings with on-going contractual liabilities expiring at various dates between 2004 and 2098. Forecast cash flows have been produced for each of these buildings based on external valuations and discounted using appropriate Government gilt rates in line with FRS 12. Factors considered include the outcome of rent reviews, refurbishment costs, dilapidations and, in particular, the ability to sub-let these properties. No provision is made for management expenses and day-to-day administration costs. The movement in discount rate reflects changes in gilt rates during the period.

(c) Employee

The employee provision relates to industrial injury and disease claims arising from the British Railways Board's large employee base both prior to and subsequent to privatisation and for which indemnities were given to the majority of sold businesses, which have been inherited by BRB (Residuary) Limited. The diseases concerned include asbestosis, mesothelioma, deafness and vibration white finger. The provision is based on forecasts of future cash flows, which have been produced with the aid of external actuarial advice in May 2003. Claims are forecast to be received until at least 2020 and, based on recent evidence, possibly until 2040. The provision has been discounted using appropriate Government gilt rates in line with FRS 12.

(d) Business Sales and Other

The provision for business sales and other includes commitments made to the purchasers of the former British Railways Board businesses under warranties and indemnities agreed during the sale process,

public liability claims relating to periods prior to privatisation and claims under the British Railways Board's central insurance fund. It also includes provisions for known claims or potential claims. The provision has been discounted using appropriate Government gilt rates in line with FRS 12. The movement in discount rate reflects changes in gilt rates during the period.

(e) Redundancy

The redundancy provision relates to the contraction of the activity formerly undertaken by the British Railways Board, the outsourcing of property estate management, and the organisational restructuring within the Authority.

(f) Environmental

Network Rail Limited have provided for the anticipated costs of remedial works on land inherited from the British Railways Board which has suffered contamination and where contractual or other obligations require the sites to be cleared. Following a review of the planned expenditure, it is estimated that the provision will be entirely utilised within two to three years.

(g) Network Grant

The provision for network grant related to grant due to Network Rail for the management and provision of railway network assets. This grant, which is paid by the Authority to Network Rail Infrastructure Limited (NRIL) under a Deed of Grant related to the period which commenced on 1 April 2001 and that was intended to finish on 31 March 2006. The grant was paid in accordance with the contractual agreements between the Authority and NRIL. A provision had been created for grant earned by Network Rail but not yet payable. The agreement which determined the grant payments has been superseded following the Regulatory review. A new agreement has been put in place with an effective date of 1 April 2004. The provision has now been released in full as a consequence of the Regulator's review.

The grant has been recognised in the Income and Expenditure Account in accordance with the Statement of Accounting Policy note xvii).

19 Contingent Liabilities

- (a) The British Railways Board has given certain warranties and indemnities in relation to the sale of businesses, most of which are subject to financial caps and time limits, a number of which extend until 2020 or thereabouts. The potential liabilities include personal injury claims and environmental damage. These have now all been transferred to the SRA as part of BRB (Residuary) Limited. Where it is probable that these will materialise, a provision has been included within the provision for liabilities and charges. The aggregate sum of the financial caps totals £1.3bn after provisions. In addition there are also certain uncapped liabilities. Whilst it is possible that a number of unexpected claims will emerge over time, the SRA believes that provision has been made in these accounts for the amounts likely to be payable.
- (b) The British Railways Board, jointly with the French National Railway, has rights to utilise a proportion of the capacity of the Channel Tunnel through the period of the concession granted. In return, the Board has certain obligations to the concessionaires, which are specified in a Usage Contract, to provide infrastructure works and joint obligations to operate services from the date of the opening of the Tunnel. The transfer of this contract from the British Railways Board to the Authority is being progressed.

The rights and obligations under this contract have been variously delegated to Network Rail Infrastructure Limited, Eurostar (UK) Limited and Railfreight Distribution Limited. Should any of these parties default, any outstanding obligations will fall in due course to the Authority.

- (c) Following the accidents at Ladbroke Grove on 5 October 1999 and Potters Bar on 10 May 2002 there are ongoing police and HSE enquiries. Network Rail and Jarvis have jointly accepted liability for the Potters Bar accident. On 9 July 2003 Network Rail Infrastructure Limited was charged with corporate manslaughter following the accident at Hatfield on 17 October 2000.
- (d) The Authority has the following contingent liabilities relating to support provided to Network Rail group in respect of a number of credit facilities, including:
 - (1) A credit facility of £10.05bn together with related agreements, which in specified circumstances allow providers of finance to Network Rail to recover amounts lent directly from the SRA. The Network Rail group has secured a £9bn credit facility with nine banks, each providing a £1bn commitment, and the remaining £1.05bn of support is from EIB/KFW facilities (see note 22).
 - (2) A credit support facility of £4bn and related agreements (similar to those in (1) above) to support Network Rail's £4bn Commercial Paper programme.
 - (3) A standby credit facility of £4bn to act as a long term contingency buffer.
 - (4) A credit support facility of £10bn and related agreements (similar to those in (1) above) to support Network Rail's £10bn Medium Term Note (MTN) programme. Up to £7bn of this MTN credit support replaces the credit support referred to in (1).

With the exception of the long term contingency buffer, the above facilities either expire, or are capable of extension such that they expire by March 2009. The long term contingency buffer has a term of 50 years. The SRA financial support to Network Rail is capped at £21.05bn in relation to the principal.

- (e) In the ordinary course of carrying out the business of the Authority, the Authority may enter into guarantees or obligations which give rise to contingent liabilities. Where required by the regulations governing the Authority, these will be notified to Parliament. All of the contingent liabilities dealt with through this process have been reviewed and are considered to be remote in likelihood of crystallising and are therefore not disclosed within these accounts.
- (f) The SRA has responsibility for a number of legacy pension schemes formerly part of the British Railways Board. The SRA is required to fund the employer's share of any deficits arising on these schemes (See note 29).

20 Post balance sheet events

- (a) Legislation was introduced into Parliament to enable the creation of a separate Police Authority into which the British Transport Police has been transferred. The new Police Authority was established on 1 July 2004, and has been created to enhance the status and public accountability of the British Transport Police and bring it more closely in line with Home Office police forces. The Police Authority took over the Strategic Rail Authority's responsibilities as employer of the Force and replaces the SRA-appointed BTP Committee, which was overseeing the BTP.
- (b) It is anticipated that an announcement will be made in the early part of July following the Government's review of the rail industry that commenced in January of this year. As at the date of signing these accounts no announcement has been made. It is highly unlikely whatever the outcome of

this review that there will be an impact on the numbers as drawn up at 31 March 2004, contained within these accounts. The going concern basis of preparing these accounts is likely to remain appropriate, as assets and liabilities will be ongoing.

21 Contracted Commitment

(a) Franchise agreement

The Authority has entered into franchise agreements with 24 Train Operating Companies for the provision of train services. The amounts falling due in the year to 31 March 2005 are as follows:

	£m
On franchise agreements expiring:	
Within one year.....	26.2
Between one and two years	108.4
Between two and five years	138.3
In five years or more.....	468.9
	<u>741.8</u>

(b) Freight Grant offers

Under the Freight Facilities Grant regime, the SRA makes offers of grants to third parties. The scheme was previously administered by DfT and transferred to the Authority under the Transport Act 2000. Total offers made under the scheme as at 31 March 2004 are £26.8m (2003: £41.7m)

(c) Network Rail

In accordance with the Deed of Grant which is effective from 1 April 2004, the Authority is committed to paying grants amounting to £10.9bn in forecast prices. Payments are forecast as £1.8bn for 2004-5, £1.7bn for 2005-6, £2.6bn for 2006-7, £2.5bn for 2007-8 and £2.3bn for 2008-9.

(d) Other

Contracts placed for future capital expenditure not provided in the financial statements are £2,307m (2003: £1,873m).

22 Financial Instruments

The Authority

The Authority's treasury operations are governed by the Transport Act 2000 as supplemented by the Financial Framework agreed with DfT, which has been approved by HM Treasury.

The Authority's financial instruments comprise cash deposits, overnight borrowings, finance leases and other items such as trade debtors, trade creditors and provisions. The main purpose of these financial instruments is to finance the Authority's operations.

The main risks arising from the Authority's financial instruments are interest rate risk and, to a lesser degree, liquidity risk and foreign currency risk. The Authority's policies for managing these risks are set to achieve compliance with the Authority's regulatory framework.

The Authority finances its operations through a mixture of Grant in Aid, PTE loans and, to a much smaller extent, finance leases. Cash is deposited in accordance with the Authority's regulatory framework against an approved list of counterparties within defined limits at fixed rates for periods not exceeding four weeks. No interest rate swaps are permitted.

The Authority maintains short-term liquidity by judicious management of its cash deposits. For the long term the Authority has been given an assurance by the Secretary of State that the Government will ensure that adequate funds will continue to be made available to meet any future financial obligations arising from the British Railways Board.

Network Rail

Network Rail's funding treasury operations ('Treasury') are co-ordinated and managed in accordance with policies and procedures approved by the Network Rail Board. Treasury is subject to regular internal audits and does not engage in trades of a speculative nature. The market and legal limitations imposed as a result of the railway administration order have now been lifted.

Treasury has a board approved counterparty list which contains the entities with whom it may invest cash and transact derivative business. Limits are set with reference to published credit ratings. These limits dictate how much and for how long Treasury may deal with each counterparty. Network Rail is exposed to credit risk. It invests surplus cash and undertakes derivative and foreign exchange transactions with approved counterparties in accordance with the above. These limits are designed to mitigate the concentration of credit risk. They are monitored on a regular basis.

Network Rail has a policy of immediately hedging all identified foreign exchange exposures over £250,000 or equivalent. Since the exit from administration of Network Rail Infrastructure Limited (formerly Railtrack PLC), Network Rail has hedged its foreign exchange exposures in accordance with this policy.

Network Rail holds a mixture of fixed and floating rate debt. It is exposed to upward movements in interest rates because it has floating rate debt in excess of floating rate assets. Interest rate derivatives are used to hedge against rises in interest rates.

Unless specifically stated, the following disclosures exclude short term debtors and creditors. Debts are analysed by repayment date.

(a) **Analysis of debt**

The table below analyses Network Rail's debt only.

	2004	2003
	Group	Group
	<u>(£m)</u>	<u>(£m)</u>
Due within one year		
Bank loans and overdrafts	1,290	8,449
Commercial Paper	3,926	—
	<u>5,216</u>	<u>8,449</u>
Due within one to two years		
Bank loans and overdrafts	29	22
Debt issued under the Medium Term Note programme	999	—
Finance leases and hire purchase contracts.....	1	1
	<u>1,029</u>	<u>23</u>
Due within two to five years		
Bank loans and overdrafts	326	196
Debt issued under the Medium Term Note programme	5,426	—
Finance leases and hire purchase contracts.....	2	2
	<u>5,754</u>	<u>198</u>
Due after five years		
Bank loans and overdrafts	1,053	1,222
Finance leases and hire purchase contracts.....	38	38
	<u>1,091</u>	<u>1,260</u>
Total		
Bank loans and overdrafts	2,698	9,889
Commercial Paper.....	3,926	—
Debt issued under the Medium Term Note programme.....	6,425	—
Finance leases and hire purchase contracts.....	41	41
	<u>13,090</u>	<u>9,930</u>

(b) **Fair value**

A comparison of current and book values of all Network Rail's financial instruments at 31 March 2004 is provided below. Where market prices are not available for a particular instrument, fair values have been calculated by discounting cash flows at prevailing interest rates. The fair value of the Authority's financial instruments at 31 March 2004 are the same as the net book value.

	2004	2004	2003	2003
	Book value	Fair value	Book value	Fair value
	(£m)	(£m)	(£m)	(£m)
Assets/ (liabilities)				
Interest bearing financial assets.....	186	187	224	224
Debt securities and finance leases	(41)	(41)	(41)	(41)
Short term borrowings and current portion of long term debt	(1,290)	(1,290)	(8,449)	(8,449)
Commercial Paper (before unamortised discount of £33m)	(3,842)	(3,842)	—	—
Forward foreign currency contracts to hedge Commercial Paper.....	(117)	(128)	—	—
Debt issued under Medium Term Note programme (before unamortised discount of £31m)	(6,434)	(6,403)	—	—
Cross currency swaps to hedge debt issued under Medium Term Note programme.....	(22)	(34)	—	—
Long term borrowings.....	(1,408)	(1,423)	(1,440)	(1,443)
Long term non-interest bearing financial liabilities.....	(5)	(5)	(13)	(13)
Forward starting rate interest swaps	—	(11)	—	—
Forward foreign currency contracts	(3)	(5)	—	3

The assumptions used to estimate fair values of debt and other financial instruments are summarised below:

- (i) Listed investments are stated at fair value based on their market price at 31 March.
- (ii) The carrying values of cash and liquid investments approximate to their fair values because of the short term maturity of these instruments.
- (iii) For short term borrowings (uncommitted borrowing, Commercial Paper and short term borrowings under the committed facilities) the book value approximates to fair value because of their short maturities.
- (iv) The fair values of all quoted eurobonds are based on their closing clean mid-market price converted at the spot rate of exchange as appropriate.
- (v) The fair values of the fixed rate EIB loans have been calculated by discounting their future cash flows at market rates.
- (vi) For floating rate loans and finance leases, the book value approximates to fair value because of frequent reset of interest rates.
- (vii) The fair values of foreign currency forward contracts are estimated using market forward exchange rates on 31 March.
- (viii) The fair values of the sterling interest rate swaps have been estimated by calculating the present value of estimated cash flows.

- (ix) The fair values of the cross currency interest rate swaps have been estimated by adding the present values of the two sides of each swap. The present value of each side of the swap is calculated by discounting the estimated future cash flows for that side, using the appropriate market discount rates for that currency in effect at the Balance Sheet date.

(c) Gains and losses on hedges

Network Rail immediately enters into forward foreign currency contracts to eliminate the currency exposures (in excess of £250,000 equivalent) that arise on purchases denominated in foreign currencies as soon as the exposure is known. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

These gains and losses are anticipated to be recognised as follows:

	2004	2004	2004	2003	2003	2003
	Gains	Losses	Total net	Gains	Losses	Total net
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Unrecognised gains and losses on hedges at 1 April.....	3	—	3	—	—	—
Gains and losses arising in the prior year that were recognised in the current year.....	(2)	—	(2)	—	—	—
Gains and losses arising in the prior year that were not recognised in the current year	1	—	1	—	—	—
Gains and losses arising in the current year that were not recognised in the current year	19	(56)	(37)	3	—	3
Unrecognised gains and losses on hedges at 31 March.....	20	(56)	(36)	3	—	3
Of which:						
Gains and losses expected to be recognised within one year	20	(44)	(24)	2	—	2
Gains and losses expected to be recognised after more than one year	—	(12)	(12)	1	—	1

Currency analysis of net assets

All material net assets are denominated in sterling.

(d) Group Interest rate risk profile

The interest rate profile of the Group's financial assets and liabilities as at 31 March 2004 is set out below. All balances are held in sterling.

Financial Assets

	Fixed Rate	Floating Rate	Total 31 March 2004
	(£m)	(£m)	(£m)
Authority			
Cash at bank.....	—	36.0	36.0
Cash on deposit.....	—	0.3	0.3
Leasing assets	—	50.2	50.2
	—	86.5	86.5
Network Rail	162.0	24.0	186.0
Group	162.0	110.5	272.5
	Fixed Rate	Floating Rate	Total 31 March 2003
	(£m)	(£m)	(£m)
Financial Assets			
Authority			
Cash at bank.....	—	14.5	14.5
Cash on deposit.....	—	0.3	0.3
Leasing assets	—	51.2	51.2
	—	66.0	66.0
Network Rail	81.0	143.0	224.0
Group	81.0	209.0	290.0

Cash on deposit at 31 March 2004 consists of cash on security deposit of £250,000. The weighted average interest rate for fixed rates assets is 5.14% (2003: 5.94%) with the weighted average time for which the rate is fixed being 2.7 years (2003: 4.7 years).

The rates achieved on the above floating rate investments for Network Rail are set at the time of investment with reference to indices such as LIBOR.

Included within the above analysis are assets belonging to Network Rail Insurance Limited of £142m (31 March 2003: £121m). Not included in the above analysis are monies held in escrow client accounts of £0.3m (31 March 2003: £1m).

Financial Liabilities	Fixed Rate	Floating Rate	Non Interest Bearing	Total 31 March 2004
	(£m)	(£m)	(£m)	(£m)
Authority				
Leasing liabilities	—	72.5	—	72.5
Loans from PTEs.....	—	157.9	—	157.9
Provisions for liabilities and charges	—	452.3	—	452.32
	—	682.7	—	682.7
Network Rail	2,972.0	10,118.0	—	13,090.0
Group	2,972.0	10,800.7	—	13,772.7

Financial Liabilities	Fixed Rate	Floating Rate	Non Interest Bearing	Total 31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Authority				
Leasing liabilities	—	68.2	—	68.2
Loans from PTEs.....	—	227.7	—	227.7
Provisions for liabilities and charges	—	436.3	986.2	1,422.5
	—	732.2	986.2	1,718.4
Network Rail	741.0	9,189.0	—	9,930.0
Group	741.0	9,921.2	986.2	11,648.4

The weighted average interest rate for the Network Rail fixed rate borrowing is 5.13% (2003:5.9%) with the weighted average time for which the rate is fixed 5.7 years (2003:9.0 years).

All borrowings are all denominated in sterling. Provisions within the Authority include 0.4m euros which have been converted into sterling at the rate of 1.5. The floating rate borrowings are all referenced to London Inter Bank Offered Rate (LIBOR).

The Group has £5m (2003: £13m) of long term non-interest bearing financial liabilities for which the weighted average period to maturity is 1.5 years (2003: 1.5 years).

(e) Committed facilities

At 31 March 2004 and 2003 Network Rail had the following undrawn committed facilities:

	2004	2004	2004	2003	2003	2003
	Drawn	Undrawn	Total	Drawn	Undrawn	Total
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Bridge facility	1,248	4,302	5,550	8,438	562	9,000
SRA support facility A	—	4,000	4,000	—	4,000	4,000
SRA support facility B	—	—	—	—	3,000	3,000
	<u>1,248</u>	<u>8,302</u>	<u>9,550</u>	<u>8,438</u>	<u>7,562</u>	<u>16,000</u>

Undrawn committed borrowing facilities expire as follows:

	2004	2003
	<i>(£m)</i>	<i>(£m)</i>
Within one year.....	4,302	562
Within one to two years	—	3,000
In more than two years.....	4,000	4,000
	<u>8,302</u>	<u>7,562</u>

Not included in the above analysis are the £800m European Investment Bank and £250m Kreditanstalt für Wiederaufbau facilities as these were fully drawn as at 31 March 2003 and 31 March 2004.

In addition, the SRA has provided support facilities in respect of the facilities listed below:

- £10bn Medium Term Note programme
- £5.55bn Bridge support facility
- £4bn Commercial Paper programme
- £800m European Investment Bank
- £245m Kreditanstalt für Wiederaufbau

The credit facilities provided by the SRA cover amounts payable under the relevant facilities. Aggregate SRA supported indebtedness under the above facilities may not exceed £17,050m at any given time.

A £1bn liquidity facility is provided by a consortium of banks in support of the £4bn Commercial Paper programme.

Uncommitted facilities

The Group has a £25m overdraft facility and a £25m money market line with its clearing bank.

23 Deferred Taxation

The amounts on which there is a potential liability/(asset) for deferred taxation at the rate of 30% are as follows:

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003
	(£m)	(£m)	(£m)	(£m)
Accelerated capital allowances	1,377.1	959.0	—	—
Other short term timing differences	(76.8)	(114.0)	—	—
Tax losses carried forward	(1,176.0)	(392.0)	—	—
Provision for deferred tax	124.3	453.0	—	—

The current rate of corporation tax of 30% (2003: 30%) has been used to calculate the amount of deferred taxation. Provision has been made for all deferred taxation assets and liabilities in respect of accelerated capital allowances, short term timing differences and tax losses carried forward, arising from transactions and events recognised in the financial statements of the current year and previous years.

The amounts of deferred tax not provided are as follows:

	Group		Authority	
	31 March 2004	31 March 2003	31 March 2004	31 March 2003
	(£m)	(£m)	(£m)	(£m)
Rolled over gains	192.0	184.0	—	—
Revaluation of assets	1,215.8	455.9	40.8	41.9
Deferred tax not provided	1,407.8	639.9	40.8	41.9

The £192m (2003:£184m) of tax in respect of rolled over gains relates partly to the gains realised by the British Railways Board which have been deferred through the application of capital gains roll over relief into the assets vested in Railtrack plc (now Network Rail Infrastructure Limited). There is insufficient historical information to calculate a provision for deferred tax in respect of the revaluation of fixed assets. The maximum potential provision is £1,215.8m (2003:£455.9m). No provision has been made in respect of deferred taxation in relation to these gains as no liability is expected to arise.

24 Reserve movement

(a) Revaluation reserve

	Group 31 March 2004	Authority 31 March 2004
	(£m)	(£m)
Balance at 1 April 2003	841.1	142.9
Revaluation of property	2,590.1	11.7
Disposals	(19.2)	(18.8)

	Group 31 March 2004	Authority 31 March 2004
	<i>(£m)</i>	<i>(£m)</i>
Balance at 31 March 2004	3,412.0	135.8
(b) Income and Expenditure reserve		
	Group 31 March 2004	Authority 31 March 2004
	<i>(£m)</i>	<i>(£m)</i>
Balance at 1 April 2003	(995.7)	(1,218.9)
Prior year adjustment (see note 27)	(40.3)	(58.3)
Balance at 1 April 2003 – restated.....	(1,036.0)	(1,277.2)
Transfer from Revaluation reserve	19.2	18.8
Pension revaluation in year	92.4	(38.3)
Result for period	373.3	1,035.8
Balance at 31 March 2004	(551.1)	(260.9)
(c) Revenue Grant reserve		
	Group 31 March 2004	Authority 31 March 2004
	<i>(£m)</i>	<i>(£m)</i>
Balance at 1 April 2003	(508.7)	(508.7)
Grant income	122.0	122.0
Balance at 31 March 2004	(386.7)	(386.7)
(d) Capital Grant reserve		
	Group 31 March 2004	Authority 31 March 2004
	<i>(£m)</i>	<i>(£m)</i>
Balance at 1 April 2003	4.6	4.6
Fixed asset additions.....	3.5	3.5
Amortisation in period.....	(0.8)	(0.8)
Balance at 31 March 2004	7.3	7.3

25 Reconciliation of movements in reserves

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Result for the year.....	373.3	(560.1)	1,035.8	(775.3)
Non cash item	—	(8.8)	—	(8.8)
Property revaluation (see notes 10 and 16)..	19.1	16.0	11.7	16.0
Grant income to Revenue Grant reserve	122.0	62.5	122.0	62.5
Grant income to provide for fixed asset purchases	3.5	2.8	3.5	2.8
Network Rail revaluation.....	2,571.0	698.2	—	—
Prior year adjustment (see note 27)	—	(25.1)	—	(51.1)
Pension valuation.....	92.4	—	(38.3)	—
Amortisation of Capital Grant reserve.....	(0.8)	(0.5)	(0.8)	(0.5)
Net increase/(decrease) in reserves for the period	3,180.5	185.0	1,133.9	(754.4)
Opening reserves	(699.0)	(884.0)	(1,638.4)	(884.0)
Closing reserves	2,481.5	(699.0)	(504.5)	(1,638.4)

26 Cashflow

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

Group	Continuing business	Acquisitions	Discontinued business	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)	(£m)
	Operating surplus/(deficit)	380.6	25.0	(62.1)	343.5
Movement in Revenue Grant reserve	122.0	—	—	122.0	53.7
Movement in Capital Grant reserve	3.8	—	(0.3)	3.5	2.3
Depreciation and amortisation	677.4	2.4	3.1	682.9	225.0
Increase in stock	(39.0)	(0.1)	—	(39.1)	(1.8)
Decrease in debtors	29.5	14.8	5.6	49.9	330.4
Increase/(decrease) in creditors and provisions	11.4	13.0	20.2	44.6	(353.2)
Net cash inflow/(outflow) from operating activities	1,185.7	55.1	(33.5)	1,207.3	(202.9)

Authority	Continuing business	Acquisitions	Discontinued business	31 March 2004	31 March 2003 Restated
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Operating surplus/(deficit)	1,080.1	(43.7)	(25.1)	1,011.3	(769.0)
Movement in Revenue Grant reserve	122.0	—	—	122.0	53.7
Movement in Capital Grant reserve	3.8	—	(0.3)	3.5	302.3
Depreciation and amortisation	0.1	2.4	3.1	5.6	2.9
Increase in stock	—	(0.1)	—	(0.1)	—
Decrease/(increase) in debtors	(25.7)	14.8	5.6	(5.3)	84.2
(Decrease)/increase in creditors and provisions	(1,103.4)	13.0	20.2	(1,070.2)	628.2
Net cash inflow/(outflow) from operating activities	76.9	(13.6)	3.5	66.8	302.3

(b) Reconciliation of net cash flow to movement in net debt

Group	Continuing business	Acquisitions	Discontinued business	31 March 2004	31 March 2003
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Increase/(decrease) in cash on deposit ..	21.6	—	—	21.6	(12.0)
Decrease in other liquid resources	(31.0)	—	—	(31.0)	(233.0)
(Decrease)/increase in cash in the period.....	(22.5)	54.7	(39.8)	(7.6)	29.4
Increase in debt.....	(2,998.2)	—	—	(2,998.2)	(1,789.0)
Decrease in leasing liabilities.....	3.4	0.8	—	4.2	5.8
Change in net debt resulting from cash flows	(3,026.7)	55.5	(39.8)	(3,011.0)	(1,998.8)
Non cash movement	(42.0)	(8.5)	—	(50.5)	(7,766.1)
Movement in net debt in the period	(3,068.7)	47.0	(39.8)	(3,061.5)	(9,764.9)
Net debt at 1 April 2003.....	(10,067.2)	—	0.8	(10,066.4)	(301.5)
Net debt at 31 March 2004	(13,135.9)	47.0	(39.0)	(13,127.9)	(10,066.4)

Authority	Continuing business	Acquisitions	Discontinued business	31 March 2004	31 March 2003
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Increase/(decrease) in cash on deposit ..	21.6	—	—	21.6	(12.0)
Decrease in other liquid resources	—	—	—	—	—
(Decrease)/increase in cash in the period.....	16.7	(14.0)	(2.8)	(0.1)	12.7
(Increase)/decrease in debt	69.8	—	—	69.8	14.9
Decrease in leasing liabilities.....	3.4	0.8	—	4.2	4.8
Change in net debt resulting from cash flows	111.5	(13.2)	(2.8)	95.5	20.4

Authority	Continuing business	Acquisitions	Discontinued business	31 March 2004	31 March 2003
	(£m)	(£m)	(£m)	(£m)	(£m)
Non cash movement	—	(8.5)	—	(8.5)	—
Movement in net debt in the period	111.5	(21.7)	(2.8)	87.0	20.4
Net debt at 1 April 2003.....	(281.9)	—	0.8	(281.1)	(301.5)
Net debt at 31 March 2004	(170.4)	(21.7)	(2.0)	(194.1)	(281.1)

(c) **Analysis of Net Debt**

Group	1 April 2003	Cashflow	Non-Cash Movements	31 March 2004
	(£m)	(£m)	(£m)	(£m)
Cash on deposit.....	0.3	21.6	—	21.9
Cash at bank and in hand.....	31.2	(7.6)	—	23.6
Debt due within one year.....	(8,514.0)	3,345.0	(136.0)	(5,305.0)
Debt due after one year.....	(1,652.7)	(6,343.2)	94.0	(7,901.9)
Leasing liabilities.....	(109.2)	4.2	(8.5)	(113.5)
Other liquid resources.....	178.0	(31.0)	—	147.0
Total	(10,066.4)	(3,011.0)	(50.5)	(13,127.9)

Authority	1 April 2003	Cashflow	Non-Cash Movements	31 March 2004
	(£m)	(£m)	(£m)	(£m)
Cash on deposit.....	0.3	21.6	—	21.9
Cash at bank and in hand.....	14.5	(0.1)	—	14.4
Debt due within one year.....	(15.0)	15.0	(89.0)	(89.0)
Debt due after one year.....	(212.7)	54.8	89.0	(68.9)
Leasing liabilities.....	(68.2)	4.2	(8.5)	(72.5)
Total	(281.1)	95.5	(8.5)	(194.1)

27 Prior Year Adjustments

During 2003-4 a decision was taken by the Financial Reporting Advisory Board that FRS 17 is to apply in full to non departmental public bodies. This means for the year ending 31 March 2004 that scheme assets and deficits have been recognised on the balance sheet. SET and Network Rail do not adopt FRS 17 for their own accounts, but on consolidation into the SRA Group FRS 17 has been applied.

The accounts to 31 March 2004 reflect the resulting pension liabilities and assets. This change in accounting policy has been reflected as a prior year adjustment and accordingly the opening balances have been restated. Full disclosure of the pension position on each scheme is included in note 29 to the accounts.

Authority Balance Sheet	Pension Liability	Pension Asset	Provisions for Liabilities and charges	Income and Expenditure reserve
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Balance at 1 April 2003 as disclosed	—	—	(1,429.1)	(1,218.9)
Prior Year Adjustment – FRS 17	(66.9)	2.0	6.6	(58.3)
1 April 2003 – restated	(66.9)	2.0	(1,422.5)	(1,277.2)

Group Balance Sheet	Pension Liability	Pension Asset	Provisions for Liabilities and charges	Income and Expenditure reserve
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Balance at 1 April 2003 as disclosed	—	—	(1,220.9)	(995.7)
Prior Year Adjustment – FRS 17	(273.9)	2.0	231.6	(40.3)
1 April 2003 – restated	(273.9)	2.0	(989.3)	(1,036.0)

The effect on the Group results of implementing this new accounting policy was to reduce the surplus by £20.2m (2003: £56.1m), and to reduce the net liabilities by £122.7m (2003: £126.1m).

The effect on the Authority results of implementing this new accounting policy was to reduce the surplus by £13.1m (2003: £7.2m), and to reduce the net liabilities by £57.6m (2003:£58.3m).

28 Related Party Transactions

The SRA is a non-departmental public body set up under the Transport Act 2000 sponsored by the DfT.

The Department is regarded as a related party. During the period the Group has had various material transactions with it and London Regional Transport, a body also sponsored by DfT.

In addition, the Group has had a number of material transactions with other Government Departments and other central Government sponsored bodies. The most significant of these transactions have been with the Passenger Transport Authorities/Executives in respect of loan repayments (see note 17(c)).

Transactions with group companies are not disclosed. It should be noted, however, that both Network Rail and the Authority have material transactions with Train Operating Companies (TOC) and Freight Operating Companies. The nature of these relationships is in some cases reciprocal such that income from a TOC to the Authority is an expense to Network Rail.

The Authority entered into transactions with Steer Davies Gleave Limited, a company that Jim Steer, Managing Director Strategic Planning is associated with. Dealings with the company are contracted on an arm's length basis, and follow the normal procurement processes of the Authority. The Managing Director Strategic Planning does not personally select or appoint Steer Davies Gleave Limited for any SRA contracts. In the period to 31 March 2004 Steer Davies Gleave Limited has provided services amounting to £1,877,604 (2003: £470,637), and the balance outstanding at 31 March 2004 was £200,576 (2003:£43,224). These amounts include the services of the Managing Director Strategic Planning.

David Bailey is contracted to the SRA, and is responsible as the project director for introducing 2,000 new vehicles onto the Southern Region railway, including addressing power supplies in the southern commuter belt. He is a non-Executive Board member of Network Rail Infrastructure Limited, nominated by the SRA, and during the year in his capacity as a director received £35k remuneration from Network Rail.

The SRA, through SRA Investment Company Limited, holds a 50% share in Cross London Rail Links Limited. Richard Bowker, Jim Steer and Doug Sutherland are all Directors of Cross London Rail Links Limited.

Two SRA Board members, David Quarmby and David Begg, are also Board members of Transport for London. Transport for London is the parent company which owns the remaining 50% share in Cross London Rail Links Limited.

29 Pension Schemes

The Financial Reporting Advisory Board has announced that FRS 17 is to apply in full to NDPB's. This applies for the financial year ended 31 March 2004 and requires the Group and the Authority's share of any deficits or recoverable surpluses on the pension funds to be recognised in the Balance Sheet.

The adoption of FRS 17 has resulted in the Group recording the assets and liabilities of each defined benefit pension scheme run by the Group on the Balance Sheets. The previous year's results have been restated (see note 27). An interim valuation has been carried out by independent qualified actuaries Watson Wyatt Partners on the Authority's defined benefit schemes as at 31 March 2004, and by Mercers for the Network Rail schemes, for the purpose of providing these disclosures. The assumptions used for the actuarial valuations have been disclosed.

The Authority participates in the Principal Civil Service Pension Scheme, three sections of the Railway Pension Scheme and the BTP Superannuation Fund. These are described below. FRS 17 has been adopted as appropriate for each of these schemes.

Network Rail participates in its own section of the Railway Pension Scheme. As a private sector company Network Rail has made the relevant transitional disclosures for FRS 17 but has not adopted it in full in its own accounts. To comply with SRA group accounting policy for the SRA accounts, FRS 17 has been adopted in full.

Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme exists for all members of the Civil Service and remains available to all employees of the Authority. Most staff members of the SRA and RPC participate in this scheme. The scheme is a defined benefit scheme backed by Government. The charge to the Income and Expenditure Account in the 12 months was £2.1m, (2003: £1.6m).

The Authority is unable to identify its own assets and liabilities within the Principal Civil Service Pension Scheme, which is being valued separately on behalf of the Cabinet Office. The scheme has therefore been treated as a defined contribution scheme.

Railways Pension Scheme

The SRA operates three sections of the Railways Pension Scheme. The BR Shared Cost Section has most of the BRB (Residuary) Limited employees, civilian members of the British Transport Police and some SRA employees. The OPRAF Shared Cost Section has some of the SRA employees, primarily those who were

formerly employed by the Franchising Director. The South Eastern Trains Shared Cost Section has most of the employees that were transferred from Connex to South Eastern Trains. They are defined benefit schemes and although they are part of the industry Railways Pension Scheme, their assets and liabilities are identified separately from the remainder of the scheme. Further details are given below.

The last actuarial reviews for funding purposes of the BR Shared Cost Section, the OPRAF Shared Cost Section and the Connex South Eastern Shared Cost Section were carried out as at 31 December 2001 by independent qualified actuaries Watson Wyatt Partners using the projected unit method. Assets and accrued liabilities were valued using the market related method.

BR Shared Cost Section

The market value of assets (net of AVC amounts) of the BR Section at 31 December 2001 was £57.276m. The market value of assets was estimated to exceed the corresponding value of the projected accrued liabilities by approximately 43% (after allowing for future salary increases but before allowing for agreed future contribution reductions and AVC matching by the Authority). In this calculation it was assumed that the investment return on existing assets over the future mean term of liabilities of 20 years would be 5.60%. The ongoing funding cost of the BR Section for future years to be met by both the employees and the Authority was estimated by the actuary at 23.0% of Section Pay, defined as pensionable pay less 150% of the basic state pension. Over the year to 31 March 2004 member contributions were 5% of Section pay to 30 September 2003 and 7.5% for the remainder of the year. Member contributions will increase to 9.2% from 1 July 2004. Employer contributions are suspended until 31 March 2009 on the basis of actuarial advice and benefit improvements that were granted to all members of the BR Section.

The Fund is open to new members.

OPRAF Shared Cost Section

The market value of assets (net of AVC amounts) of the OPRAF Section at 31 December 2001 was £8.287m. The market value of assets was estimated as approximately 78% of the corresponding value of the projected accrued liabilities (after allowing for future salary increases). In this calculation it was assumed that the investment return on existing assets over the future mean term of liabilities of 21.1 years would be 5.66%.

The ongoing funding cost of the OPRAF Section for future years to be met by both the employees and the Authority was estimated by the actuary at 22.8% of Section Pay, defined as pensionable pay less 150% of the basic state pension. Additional contributions of 19.38% for a period of six years from 1 October 2003 are required to meet the deficit.

During the year to 31 March 2004 member contributions of 5% of Section Pay were paid until 30 September 2003 when they increased to 8.93% of Section pay for the remainder of the year. Employer contributions were 21.2% of Section Pay until 30 September 2003 and 33.25% of Section Pay from 1 October 2003. Member contributions will increase to 12.85% of Section Pay from 1 July 2004 with employer contributions falling to 29.33% of Section Pay from that date. The Fund is open to new members.

South Eastern Trains Shared Cost Section

The market value of assets at 31 December 2001 was £213.9m. The market value of assets was estimated to exceed the corresponding value of the projected accrued liabilities after allowing for future salary increases, but before allowing for agreed future contributions reductions by approximately 20%

As a result, although there was a surplus shown in the valuation it was agreed that employer and member contributions would be increased due to the anticipated increase in liabilities following pay restructuring. Employer rates would be 7.5% to 30 June 2004, increasing to 9.75% in the period to 30 June 2005, 11.25% in the next period to 16 June 2006 and 14.34% thereafter. Member rates would be 5.0% to 30 June 2004, increasing to 6.5% in the period to 30 June 2005, 7.5% in the next period to 16 June 2006 and 9.56% thereafter.

The scheme actuary estimated that after allowing for these contributions the market value of assets would exceed the corresponding value of projected accrued liabilities by approximately 9.5%

The figures disclosed and included within the accounts for FRS 17 are for the period from 9 November 2003 to 31 March 2004.

The fund is open to new members.

Financial assumptions

The latest actuarial valuation for all three sections as at 31 December 2001 was updated to 31 March 2004 by an independent qualified actuary using the following assumptions, as set out in the table below.

	31 March 2004	31 March 2003	31 March 2002
	(% pa)	(% pa)	(% pa)
Inflation.....	2.7	2.1	2.5
Rate of increase in salaries.....	4.2	3.6	4.0
Rate of increase of pensions in payment.....	2.7	2.1	2.5
Rate of increase for deferred pensioners.....	2.7	2.1	2.5
Discount rate	5.5	5.4	5.75

An actuarial valuation was carried out as at 9 November 2003 for the South Eastern Trains Section to provide an opening valuation on transfer into the SRA. The assumptions used for this were: inflation 2.6% , rate of increase in salaries 4.1% , rate of increase of pensions in payment 2.6% , rate of increase for deferred pensioners 2.6% and discount rate 5.6%

The assets in the scheme and the expected rates of return for each of these schemes were:

BR Shared Cost Section

	Net Assets			Expected rate of return		
	31 March 2004	31 March 2003	31 March 2002	31 March 2004	31 March 2003	31 March 2002
	(£m)	(£m)	(£m)	(% pa)	(% pa)	(% pa)
Equities.....	41.0	36.0	49.7	8.1	8.2	7.5
Bonds.....	10.6	4.4	5.6	5.0	4.8	5.25
Property	4.3	3.6	3.3	6.5	6.5	6.5

	Net Assets			Expected rate of return		
	31 March 2004	31 March 2003	31 March 2002	31 March 2004	31 March 2003	31 March 2002
	(£m)	(£m)	(£m)	(% pa)	(% pa)	(% pa)
Other.....	(0.4)	(0.5)	(0.1)	3.7	3.6	—
Total market value of assets.....	55.5	43.5	58.5	7.4	7.7	7.2
Present value of scheme liabilities.....	(50.5)	(41.5)	(36.6)			
Members share of surplus.....	—	—	(4.0)			
Adjusted value of scheme liabilities.....	(50.5)	(41.5)	(40.6)			
Transfer to 1994 Pensions Section.....	(2.2)	—	—			
Pension scheme surplus.....	2.8	2.0	17.9			

OPRAF Shared Cost Section

	Net Assets			Expected rate of return		
	31 March 2004	31 March 2003	31 March 2002	31 March 2004	31 March 2003	31 March 2002
	(£m)	(£m)	(£m)	(% pa)	(% pa)	(% pa)
Equities.....	7.9	5.1	7.3	8.1	8.2	7.5
Bonds.....	0.9	0.6	0.8	5.0	4.8	5.25
Property.....	0.6	0.5	0.4	6.5	6.5	6.5
Other.....	0.4	0.1	0.1	3.7	3.6	—
Total market value of assets.....	9.8	6.3	8.6	7.5	7.7	7.2
Present value of scheme liabilities.....	(15.3)	(11.7)	(9.8)			
Total deficit.....	(5.5)	(5.4)	(1.2)			
Members share of deficit.....	1.1	—	—			
Pension scheme deficit attributable to the employer.....	(4.4)	(5.4)	(1.2)			

South Eastern Trains Shared Cost Section

	Net Assets		Expected rate of return	
	31 March 2004	9 November 2003	31 March 2004	9 November 2004
	(£m)		(% pa)	(% pa)
Equities.....	177.0	172.0	8.1	8.0
Bonds.....	21.3	19.0	5.0	5.2
Property.....	16.0	13.8	6.5	6.6

	Net Assets		Expected rate of return	
	31 March 2004	9 November 2003	31 March 2004	9 November 2004
	(£m)		(% pa)	(% pa)
Other.....	(0.4)	0.4	3.7	3.6
Total market value of assets.....	213.9	205.2	7.7	7.6
Present value of scheme liabilities.....	(241.5)	(225.4)		
Total deficit	(27.6)	(20.2)		
Members share of deficit	11.0	8.1		
Pension scheme deficit attributable to the employer before deferred tax	(16.6)	(12.1)		
Deferred tax	5.0	3.6		
Pension scheme deficit attributable to the employer after deferred tax	(11.6)	(8.5)		

Components of defined benefit cost for the period ended 31 March 2004:

Analysis of amounts charged to operating profit:	BR Shared Cost Section		OPRAF Shared Cost Section		South Eastern Trains Shared Cost Section
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004
	(£m)	(£m)	(£m)	(£m)	(£m)
Current service cost	1.7	1.8	(0.1)	0.1	4.4
Past service costs	—	—	0.3	—	—
Total charge to operating profit	1.7	1.8	0.2	0.1	4.4

Analysis of amounts charged to other finance income:	BR Shared Cost Section		OPRAF Shared Cost Section		South Eastern Trains Shared Cost Section
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004
	(£m)	(£m)	(£m)	(£m)	(£m)
Interest on Fund liabilities	2.3	2.5	0.7	0.5	4.9
Expected return on Fund assets.....	(2.9)	(3.5)	(0.5)	(0.5)	(6.0)

Analysis of amounts charged to other finance income:	BR Shared Cost Section		OPRAF Shared Cost Section		South Eastern Trains Shared Cost Section
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004
	(£m)	(£m)	(£m)	(£m)	(£m)
Interest on employee share of the deficit	—	—	(0.1)	—	(0.2)
Net charge/(credit) to other finance income	(0.6)	(1.0)	0.1	—	(1.3)

Analysis of amounts recognised in STRGL:	BR Shared Cost Section		OPRAF Shared Cost Section		South Eastern Trains Shared Cost Section
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004
	(£m)	(£m)	(£m)	(£m)	(£m)
Gain/(loss) on assets	6.8	(10.6)	1.3	(2.7)	3.3
Experience gain/(loss) on liabilities	(2.3)	(5.0)	(0.1)	(2.1)	1.0
Gain/(loss) on change of assumptions.....	(2.6)	0.4	(2.0)	0.2	(9.5)
Movement of employee share of deficit.....			1.1		2.7
Total gain/(loss) recognised in STRGL before adjustment for tax.....	1.9	(15.2)	0.3	(4.6)	(2.5)

Experience gains and losses:	BR Shared Cost Section		OPRAF Shared Cost Section		South Eastern Trains Shared Cost Section
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004
	(£m)	(£m)	(£m)	(£m)	(£m)
Gain/(loss) on Section assets					
(i) Amount.....	6.8	(10.6)	1.3	(2.7)	3.3

Experience gains and losses:	BR Shared Cost Section		OPRAF Shared Cost Section		South Eastern Trains Shared Cost Section
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004
	(£m)	(£m)	(£m)	(£m)	(£m)
(ii) % of section assets at end of period	13%	24%	13%	43%	2%
Experience gain/(loss) on Section liabilities					
(i) Amount.....	(2.3)	(5.0)	(0.1)	(2.1)	1.0
(ii) % of section liabilities at end of period.	5%	12%	0.7%	17.9%	0%
Total actuarial gain/(loss) recognised in STRGL					
(i) Amount.....	1.9	(15.2)	0.3	(4.6)	(2.5)
(ii) % of section liabilities at end of period.	4%	37%	2%	39%	1%

Analysis of the movement in employers share of surplus/(deficit) in the Section during the period	BR Shared Cost Section		OPRAF Shared Cost Section		South Eastern Trains Shared Cost Section
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004
	(£m)	(£m)	(£m)	(£m)	(£m)
Surplus/(deficit) in employers share in the Section at beginning of period	2.0	17.9	(5.4)	(1.2)	(12.1)
Contributions paid	—	0.1	1.0	0.5	1.3
Current service cost	(1.7)	(1.8)	0.1	(0.1)	(4.4)
Past service cost.....	—	—	(0.3)	—	—
Other finance income/(charge).....	0.6	1.0	(0.1)	—	1.1
Actuarial gain/(loss).....	1.9	(15.2)	0.3	(4.6)	(2.5)
Surplus/(deficit) in employers share in the Section at end of period.....	2.8	2.0	(4.4)	(5.4)	(16.6)

Analysis of the movement in surplus/(deficit) in the Section during the period	BR Shared Cost Section		OPRAF Shared Cost Section		South Eastern Trains Shared Cost Section
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004
	(£m)	(£m)	(£m)	(£m)	(£m)
Surplus/(deficit) in the Section at beginning of period.....	2.0	17.9	(5.4)	(1.2)	(20.2)
Contributions paid	—	0.1	1.0	0.5	1.3
Current service cost	(1.7)	(1.8)	0.1	(0.1)	(4.4)
Past service cost.....	—	—	(0.3)	—	—
Other finance income/(charge).....	0.6	1.0	(0.1)	—	1.1
Actuarial gain/(loss).....	1.9	(15.2)	(0.8)	(4.6)	(5.4)
Surplus/(deficit) in the Section at end of period	2.8	2.0	(5.5)	(5.4)	(27.6)

BT Police Force Superannuation Fund

The British Transport Police Force Superannuation Fund exists for British Transport Police Officers and was valued at 31 December 2002 by independent qualified actuaries, Watson Wyatt Partners, using the projected unit method. This fund operates in two sections. The market value of the assets of the fund at 31 December 2002 was £459.85m.

The projected accrued liabilities were estimated to exceed the market value of the assets as at the valuation date by approximately 4.8% after allowing for future salary increases but before allowing for agreed future contribution reductions. In this calculation it was assumed that the investment return on existing assets over the future mean term of liabilities of 20 years would be 6.75%

The ongoing funding cost of the Fund for future years to be met by both the employees and the Board was estimated by the actuary at 39.7% of Scheme Salary, defined as pensionable pay less 150% of the basic state pension.

In the year to 31 March 2004, the Fund was receiving reduced contributions of 10% of Scheme Salary from employees. With effect from 1 September 2000 the employer's contributions were suspended on the basis of actuarial advice and benefit improvements were granted to members of the Contributory Benefits part of the 1970 Section of the Fund.

Employer contributions for the period ending 31 March 2004 are £nil. As a result of the 31 December 2002 valuation, future agreed contribution reductions will not continue. Contributions from 1 April 2004 are being increased to 16% of Scheme Salary from members and 24% of Scheme Salary from the employer.

A further actuarial valuation for funding purposes will be carried out as at 30 June 2004. If this valuation reveals a deficit then the employer will make additional contributions to meet a proportion of pensions in payment until the following valuation results are available. The employer may agree similar action after future valuations. Any additional contributions paid by the employer will be a first call against any future

surpluses. These arrangements may in future years change the balance of the shared cost arrangement with the employer, in times of deficit, agreeing to be responsible for more than 60% of the scheme deficit. At present as the scheme deficit under these arrangements may not be recoverable from the members the whole of the liability has been treated as due to the employer.

The Fund is open to new members.

Financial assumptions:

The latest actuarial valuation as at 31 December 2002 was updated to 31 March 2004 by an independent qualified actuary using the following assumptions, as set out in the table below:

	31 March 2004	31 March 2003	31 March 2002
	(% pa)	(% pa)	(% pa)
Inflation.....	2.7	2.1	2.5
Rate of increase in salaries.....	4.2	3.6	4.0
Rate of increase of pensions in payment.....	2.7	2.1	2.5
Rate of increase for deferred pensioners.....	2.7	2.1	2.5
Discount rate.....	5.5	5.4	5.75

The assets in the scheme and the expected rates of return were:

	Net Assets			Expected rate of return		
	31 March 2004	31 March 2003	31 March 2002	31 March 2004	31 March 2003	31 March 2002
	(£m)	(£m)	(£m)	(% pa)	(% pa)	(% pa)
Equities.....	438.7	345.4	479.1	8.1	8.2	7.5
Bonds.....	69.7	56.5	70.9	5.0	4.8	5.25
Property.....	39.9	35.9	33.2	6.5	6.5	6.5
Other.....	0.4	(0.1)	0.5	3.7	3.6	—
Total market value of assets.....	548.7	437.7	583.7	7.6	7.6	7.2
Present value of scheme liabilities.....	(658.0)	(538.7)	(511.0)			
Members share of surplus.....	—	—	(24.2)			
Adjusted value of scheme liabilities.....	(658.0)	(538.7)	(535.2)			
Total deficit.....	(109.3)	(101.0)	48.5			
Members share of deficit.....	—	39.5	—			
Pension scheme surplus/(deficit) attributable to the employer.....	(109.3)	(61.5)	48.5			

Components of defined benefit cost for the period ended 31 March 2004

	31 March 2004	31 March 2003
	<i>(£m)</i>	<i>(£m)</i>
Analysis of amounts charged to operating profit:		
Current service cost.....	16.0	12.8
Past service cost	—	—
Total charged to operating profit.....	16.0	12.8
Analysis of the amount charged to other finance income:		
	<i>(£m)</i>	<i>(£m)</i>
Interest on Fund liabilities.....	27.5	31.5
Expected return on Fund assets.....	(32.8)	(37.4)
Interest on employees share of deficit.....	(2.0)	—
Net credit to other finance income	(7.3)	(5.9)
Analysis of amounts recognised in STRGL:		
	<i>(£m)</i>	<i>(£m)</i>
Gain/(loss) on assets.....	91.5	(175.0)
Experience gain/(loss) on liabilities	(36.8)	27.4
Gain/(loss) on change of assumptions.....	(52.3)	5.0
Movement of employee share of deficit.....	(39.5)	39.5
Total loss recognised in STRGL before adjustment for tax.....	(37.1)	(103.1)
Experience gains and losses:		
	<i>(£m)</i>	<i>(£m)</i>
Gain/(Loss) on section assets		
(i) Amount.....	91.5	(175.0)
(ii) % of section assets at end of period.....	17%	40%
Experience gain/(loss) on section liabilities		
(i) Amount.....	(36.8)	27.4
(ii) % of section liabilities at end of period	6%	6%

Experience gains and losses:	31 March 2004	31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
Total actuarial gain/(loss) recognised in STRGL		
(i) Amount	(37.1)	(103.1)
(ii) % of section liabilities at end of period	6%	21%

Analysis of the movement in employers share of surplus/(deficit) in the Fund during the period:	31 March 2004	31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
Surplus/(deficit) in employers share in the Fund at beginning of period	(61.5)	48.5
Current service cost	(16.0)	(12.8)
Past service cost	—	—
Other finance income	5.3	5.9
Actuarial loss	(37.1)	(103.1)
Deficit in employers share in the Fund at end of period	<u>(109.3)</u>	<u>(61.5)</u>

Analysis of the movement in surplus/(deficit) in the Fund during the period:	31 March 2004	31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
Surplus/(deficit) in the Fund at beginning of period	(101.0)	48.5
Current service cost	(16.0)	(12.8)
Past service cost	—	—
Other finance income	5.3	5.9
Actuarial gain/(loss)	2.4	(142.6)
Deficit in the Fund at end of period	<u>(109.3)</u>	<u>(101.0)</u>

Network Rail

The principal pension scheme that the Network Rail group participates in is the Railways Pension Scheme (RPS), and the group has its own section, the Network Rail Shared Cost Section. This is a defined benefit scheme, and the assets and liabilities are identified separately from the remainder of the scheme.

It was announced on 6 November 2003 that the Network Rail Section of the RPS would be closed to new members from 1 April 2004. Benefits for existing members and employees joining up to and including 31 March 2004 were not affected by the closure of the Network Rail Section. In addition to closing the scheme to new entrants the Company announced its decision to cap its contribution to British Railways Additional Superannuation Scheme (BRASS) matching at current levels for existing employees and to dispense with matching for new employees. Network Rail will continue to match regular contributions but will not increase them in cash terms in the future.

With effect from 1 April 2004 Network Rail introduced a defined contribution pension scheme, the Network Rail Defined Contribution Pension Scheme (NRDCPS). This scheme is the only Company-sponsored pension offered to all new employees of Network Rail, except those who have the legal right to join the RPS. Any employee who wishes to transfer from the Network Rail Section to the NRDCPS is entitled to do so.

On 2 October 2003 Network Rail announced a programme of redundancies aimed at reducing personnel in managerial grades. Approximately 600 employees left the Company following this announcement and pension benefits were provided for these employees until 31 December 2003.

During the year Network Rail brought three infrastructure maintenance contracts in-house. The result of this was the addition of 2,374 employees to the Network Rail Section of the RPS prior to 31 March 2004. On 24 October 2003 Network Rail announced its intention to bring all remaining maintenance contracts in-house. The Network Rail Section of the RPS was joined by 1,883 employees on 1 April 2004 and it is assumed that an additional 8,500 will join by 31 July 2004. It is anticipated that approximately 3,100 additional transferred employees are not currently members of the RPS in their current employer's section and will be offered membership of the NRDCPS.

Infrastructure maintenance contract employees currently in their employer's section of the RPS will be given the option to transfer their accrued benefits into the Network Rail Section of the RPS. If members agree to transfer their benefits to the scheme, then depending on the transfer value agreed, there may be a surplus or deficit generated in respect of past service.

The impact of all the above items other than the redundancies in December 2003 will be included in the accounts for the year ended 31 March 2005.

A full actuarial valuation of the Network Rail Section was carried out by the scheme actuary at 31 December 2001 and adjusted to 31 March 2003 by Network Rail's pension adviser, a qualified independent actuary. The total contribution rate payable under the RPS is normally split in the proportion 60:40 between the employer and the members. At the start of the year, the employer and members were paying contributions of 14.25% and 6.5% of section pay respectively. With effect from 1 January 2004 the members' rate changed to 8% and this is due to change to 9.5% on 1 January 2005. These rates were determined following the funding valuation carried out by the scheme actuary as at 31 December 2001. If a surplus or deficit arises, the provisions in the RPS rules mean that Network Rail and members usually benefit from or pay for this respectively in the proportion 60:40.

Financial assumptions

The latest actuarial valuation as at 31 December 2001 was updated to 31 March 2004 for FRS 17 purposes by an independent qualified actuary using the following assumptions, as set out in the table below:

	31 March 2004	31 March 2003
	(% pa)	(% pa)
Inflation	2.9	2.6
Rate of increase in salaries	4.65	5.1
Rate of increase of pensions in payment	2.9	2.6
Rate of increase for deferred pensioners	2.9	2.6
Discount rate	5.5	5.4

Fair value of assets and expected rate of return:

The following fair values at 31 March 2004 were measured using the above assumptions in accordance with the requirements of FRS 17.

	Net assets		Expected rate of return	
	31 March 2004	31 March 2003	31 March 2004	31 March 2003
	(£m)	(£m)	(%pa)	(%pa)
Equities	996	759	6.35	6.12
Bonds	177	103	4.35	4.12
Property	85	75	6.35	6.12
Total market value of assets	<u>1,258</u>	<u>937</u>		
Present value of scheme liabilities	<u>(1,525)</u>	<u>(1,430)</u>		
Scheme Deficit	(267)	(493)		
Deficit attributable to members	<u>107</u>	<u>197</u>		
Pension scheme deficit attributable to the employer before deferred tax	(160)	(296)		
Deferred tax	<u>48</u>	<u>89</u>		
Pension scheme deficit attributable to the employer after deferred tax	<u><u>(112)</u></u>	<u><u>(207)</u></u>		

Components of defined benefit cost for the period ended 31 March 2004:

	31 March 2004	31 March 2003
	<i>(£m)</i>	<i>(£m)</i>
Analysis of amounts charged to operating profit		
Current service cost.....	71	25
Past service costs.....	—	—
Total charged to operating profit.....	71	25

	31 March 2004	31 March 2003
	<i>(£m)</i>	<i>(£m)</i>
Analysis of the amount charged to other finance income:		
Interest on Fund liabilities.....	79	31
Expected return on Fund assets.....	(57)	(27)
Interest on employee share of deficit	(6)	(5)
Net charge/(credit) to other finance income	16	(1)

	31 March 2004	31 March 2003
	<i>(£m)</i>	<i>(£m)</i>
Analysis of amounts recognised in STRGL:		
Gain/(loss) on assets.....	203	(18)
Experience gain/(loss) on liabilities	24	(4)
Gain/(loss) on change of assumptions.....	42	(134)
Expected employee contributions towards shared cost of deficit	(90)	67
Total gain/(loss) recognised in STRGL before adjustment for tax.....	179	(89)

	31 March 2004	31 March 2003
	<i>(£m)</i>	<i>(£m)</i>
Experience gains and losses:		
Gain/(loss) on section assets		
(i) Amount	203	(18)
(ii) % of section assets at end of period.....	16%	2%
Experience gain/(loss) on section liabilities		
(i) Amount	24	(4)
(ii) % of section liabilities at end of period	2%	0%

Experience gains and losses:	31 March 2004	31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
Total actuarial gain/(loss) recognised in STRGL		
(i) Amount	179	(89)
(ii) % of section liabilities at end of period	12%	6%

Analysis of the movement in surplus/(deficit) in the employers section of the Fund during the period	31 March 2004	31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
Deficit in employers section of the Fund at beginning of year acquired.....	(296)	(194)
Current service cost.....	(71)	(25)
Contributions.....	50	16
Other finance charge	(22)	(4)
Actuarial gain/(loss).....	179	(89)
Deficit in the employers section of the Fund at end of period.....	<u>(160)</u>	<u>(296)</u>

Analysis of the movement in surplus/(deficit) of the Fund during the period	31 March 2004	31 March 2003
	<u>(£m)</u>	<u>(£m)</u>
Deficit in scheme at beginning of year acquired.....	(493)	(324)
Current service cost.....	(71)	(25)
Contributions.....	50	16
Other finance income/(charge).....	(16)	1
Actuarial gain/(loss).....	263	(161)
Deficit in the Fund at end of period.....	<u>(267)</u>	<u>(493)</u>

Other Schemes

BRB (Residuary) Limited has a small number of historic funded pension arrangements which relate almost entirely to individuals drawing pensions. There are 62 actives participating in these schemes. They are legacy schemes from the British Railways Board and the Authority does not have any employees participating in these schemes. The latest actuarial valuations of these funds have all been carried out either as at 31 December 2000, 31 December 2001 or 31 December 2002. The valuations showed for all but London North Western Railway Provident Society Pension Fund, that the assets of the schemes covered the liabilities and that no contributions from the employer were required. The Authority is required to make good any deficits on the scheme but is not entitled to any scheme surpluses. There was a deficit of £0.2m in the scheme referred to above, and BRB (Residuary) Limited is paying the contributions recommended by the actuary of £0.05m per annum. The schemes have been reviewed as at 31 March 2004, and there are no further obligations

arising. Given the nature of these schemes and the effect on the Authority accounts no FRS 17 disclosures are being made. These obligations form a contingent liability on the Authority.

BRB (Residuary) Limited also has liabilities relating to historic obligations under unfunded pension arrangements. The charge to Income and Expenditure Account during the period was £0.2m (2003:£0.1m). A provision of £3.2m is held in the accounts against these liabilities (2003:£3.1m). The provision held in respect of pensions for former BRB Board Members totalled £0.7m at 31 March 2004 (2003:£0.7m). The charge to Income and Expenditure Account during the period was £0.1 (2003:£0.1m).

The scheme held by Richard Bowker is a money purchase scheme.

Analysis of pension liability

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Balance at 1 April	(273.9)	—	(66.9)	—
Prior year adjustment	—	(1.2)	—	(1.2)
Balance at 1 April restated.....	(273.9)	(1.2)	(66.9)	(1.2)
Movement of scheme from pension asset	—	48.5	—	48.5
Items charged to Income and Expenditure reserve.....	(55.0)	(19.5)	(12.0)	(6.5)
Employees share of deficit.....	(125.7)	106.5	(35.7)	39.5
Deficit in scheme acquired	(12.1)	(194.0)	(12.1)	—
Gain/(loss) on assets	298.7	(195.7)	96.1	(177.7)
Experience gain/(loss) on liabilities.....	(11.9)	21.3	(35.9)	25.3
Gain/(loss) on change of assumptions	(21.8)	(128.8)	(63.8)	5.2
Result for period before deferred tax	(201.7)	(362.9)	(130.3)	(66.9)
Deferred tax	(36.0)	89.0	5.0	—
Result for the period after deferred tax	(237.7)	(273.9)	(125.3)	(66.9)

Analysis of pension asset

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	(£m)	(£m)	(£m)	(£m)
Balance at 1 April	2.0	—	2.0	—

	Group		Authority	
	31 March 2004	31 March 2003 Restated	31 March 2004	31 March 2003 Restated
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Prior year adjustment	—	66.4	—	66.4
Balance at 1 April restated.....	2.0	66.4	2.0	66.4
Movement of scheme to pension liability	—	(48.5)	—	(48.5)
Items charged to income and Expenditure reserve.....	(1.1)	(0.7)	(1.1)	(0.7)
Gain/(loss) on assets	6.8	(10.6)	6.8	(10.6)
Experience gain/(loss) on liabilities.....	(2.3)	(5.0)	(2.3)	(5.0)
Gain/(loss) on change of assumptions	(2.6)	0.4	(2.6)	0.4
Result for period	2.8	2.0	2.8	2.0

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