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# NETWORK RAIL MTN FINANCE PLC

(Incorporated under the laws of England and Wales)

**£10,000,000,000**

## **Secured Medium Term Note Programme Credit Supported by the STRATEGIC RAIL AUTHORITY**

Under the Secured Medium Term Note Programme described in this Offering Circular (the “**Programme**”), Network Rail MTN 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 aggregate nominal amount of Notes outstanding will not at any time exceed £10,000,000,000 (or the equivalent in other currencies).

Notes will be issued in Series (as defined herein) and each Series will benefit from certain security over certain property of the Issuer, including (a) an assignment of the Issuer’s rights under (i) a standby loan facility agreement (the “**SRA Credit Support Facility Agreement**”) provided by the Strategic Rail Authority (the “**SRA**”) and (ii) certain rate of interest and/or currency exchange agreements or other hedging arrangements (each a “**Hedging Agreement**”) and (b) a charge over all sums held by the Issuing and Paying Agent (as defined herein) to meet payments due in respect of the Notes. Claims against the Issuer by, *inter alios*, holders of the Notes (the “**Noteholders**”), the Hedge Counterparties (as defined herein), the Issuing and Paying Agent and the SRA will be limited to the Security Assets (as defined herein).

Noteholders will have the benefit of the SRA Direct Agreement (as defined herein) between the SRA, the Security Trustee (as defined herein) and the Issuer, whereby the SRA has agreed to offer a put option in respect of all Notes outstanding exercisable by the Security Trustee in certain specified circumstances, as described more fully in “**Description of the Programme – SRA Credit Support Documents – SRA Direct Agreement**”.

If the net proceeds of the enforcement of the Security Assets are not sufficient to make all payments then due in respect of the Notes and Coupons (as defined herein) and the claims of any other Secured Creditors (as defined herein), 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 Issuer may from time to time issue further Notes on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (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 Financial Services and Markets Act 2000.

Each Series of Notes in bearer form 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**”). Each Series of Notes in registered form will be represented on issue by a certificate in global form (a “**Global Certificate**”) and, together with the temporary Global Note and the permanent Global Note, the “**Global Notes**”). Global Notes may be deposited on the issue date with a common depository 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 and definitive 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 Aa1 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**

**Merrill Lynch International**

### **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 26 February 2004.

## IMPORTANT NOTICE

This Offering Circular comprises listing particulars given in compliance with the listing rules made under Section 74 of the Financial Services and Markets Act 2000 by the UK Listing Authority.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best 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 section in this Offering Circular headed “*Overview of 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 Financial Services and Markets Act 2000 or the listing rules made under Section 74 of the Financial Services and Markets Act 2000 by the UK Listing Authority. The Issuer and the SRA each believe 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 or the Arranger. 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 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 Offering 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 Financial Services and Markets Act 2000. 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 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 security and credit support 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**” and “**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**” and “**EUR**” are to the single currency introduced in the member states of the European Community 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 Financial Services and Markets Act 2000. 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 Financial Services and Markets Act 2000, 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 Financial Services and Markets Act 2000.

## **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 (the "**Exchange Act**") 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 the information required to be provided by Rule 144A(d)(4) under the Securities Act.

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## INTRODUCTION TO THE TRANSACTION

### Introduction

- The Issuer is Network Rail MTN Finance PLC, which has been incorporated for the sole purpose of acting as the issuer under the Programme. The Issuer is not a member of the 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.
- The Notes will be credit supported by the SRA, a statutory body funded by and accountable to the Secretary of State for Transport (the “**Secretary of State**”). (See further “*Description of the Programme – SRA Credit Support Documents*”).

### 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 operators (“**TOCs**”) and freight operators (“**FOCs**”) under access agreements, and (ii) direct subsidies from the SRA in the form of revenue grants. In addition, NRIL receives some capital grants from the SRA in respect of investment in its infrastructure. (See further “*The Network Rail Group*”).

### Strategic Rail Authority

The Notes will have the benefit of credit support under the SRA Credit Support Documents (see “*Description of the Programme – SRA Credit Support Documents*”) from the SRA, which was established by the Transport Act 2000 (the “**Transport Act**”) and assumed its full powers on 1 February 2001. The purposes of the SRA are (a) to promote the use of the railway network in Great Britain for the carriage of passengers and goods, (b) to secure the development of the railway network, and (c) 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 19 February 2004, the Secretary of State issued directions to the SRA to enter into the SRA Credit Support Documents, the form of which is reproduced in Appendix II.

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 provision approved in supplementary estimates. 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 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 it is not a Crown 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 will look at the progress being made with the increased investment in the railways and the structural and organisational changes needed so the railways can operate more effectively for its customers, with clear lines of accountability and responsibility, including the regulation of safety. Proposals from the review will be published in Summer 2004.

The UK Government has made it clear that:

- Network Rail's financing structure will not change fundamentally and so with the UK Government's support, it will be continuing with the current financing strategy, including the Programme, on the same timetable as previously envisaged;
- it remains committed to the letter of comfort dated 3 March 2003 from the DfT (see further "*The SRA – Rating*") and that nothing in the review would undermine the UK Government's support for the financial obligations of the SRA, as set out in the letter of comfort;
- the letter of comfort applies both to the SRA and to any body to which the SRA's liabilities may be transferred in accordance with any relevant legislation;
- railways are essential to the economy of Britain. Whatever the institutional structure, the UK Government will need to be at least as closely involved as it currently is in expenditure decisions and in making financial commitments to the industry and those who finance it; so that lenders to the industry enjoy at least the same strength of financial support from the UK Government as they do today.

Accordingly, the review will not adversely impact on the creditworthiness of the Notes.

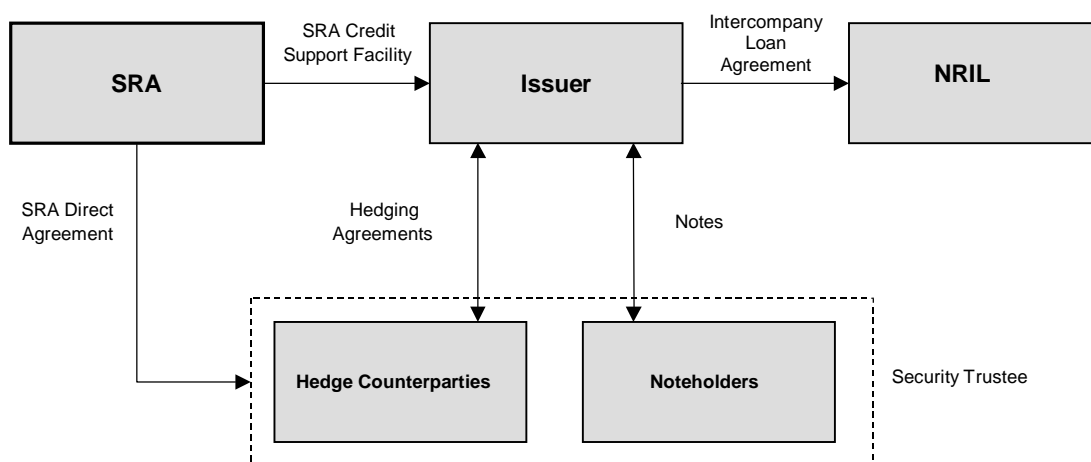
## **Financing Strategy for Network Rail**

The Programme is being established as part of the overall financing strategy employed by Network Rail, with the support of the SRA. The Programme is intended to provide a source of short and medium term finance to supplement Network Rail's existing commercial paper programme (the "**CP Programme**") and existing bank facilities. Network Rail expects to put in place a long term financing structure, which is expected to meet substantially all of Network Rail's further debt funding requirements.

The proceeds from the Programme are expected to be used to provide up to £3 billion of working capital and to refinance up to £7 billion of Network Rail's existing £9 billion bank bridge facilities. The proceeds will not result in an aggregate increase in the amount of SRA support for the Network Rail group. (See "*The SRA - SRA's Financial Position*").



## The Transaction Structure



- The Issuer will issue the Notes to the Noteholders and enter into the Hedging Agreements with the Hedge Counterparties.
- The Issuer will on-lend proceeds from the issuance of the Notes to NRIL under the Intercompany Loan Agreement and will apply payments received from NRIL under the Intercompany Loan Agreement to pay, *inter alia*, interest and principal under the Notes and payments under the Hedging Agreements.
- The SRA will provide credit support in the form of (i) the SRA Credit Support Facility, a loan facility made available to the Issuer to fund, *inter alia*, payments under the Notes and/or Hedging Agreements, and (ii) the Put Option under the SRA Direct Agreement. The Put Option gives the Security Trustee the right to require the SRA to pay directly to it an option price calculated to include, *inter alia*, outstanding amounts under the Notes and/or Hedging Agreements.
- Pursuant to the Deed of Charge, the Issuer will grant security over its assets, including its rights under the SRA Credit Support Facility Agreement, to the Security Trustee for the benefit of the Secured Creditors.

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

## SUMMARY OF THE PROGRAMME

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

<b>Issuer:</b>	Network Rail MTN Finance PLC.
<b>Credit Supporter:</b>	Strategic Rail Authority.
<b>Description:</b>	Secured Medium Term Note Programme.
<b>Size:</b>	Up to £10,000,000,000 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 exchange amount payable by the Issuer to the relevant Hedge Counterparty pursuant to the currency swap agreement entered into between them in respect of such Note.
<b>Arranger:</b>	Merrill Lynch International.
<b>Dealers:</b>	Barclays Bank PLC; Citigroup Global Markets Limited; Dresdner Bank AG; HSBC Bank plc; Merrill Lynch International; Royal Bank of Canada Europe Limited; The Royal Bank of Scotland plc; UBS Limited and WestLB AG.  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 “ <b>Permanent Dealers</b> ” 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 “ <b>Dealers</b> ” are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Tranches (each a “ <b>Dealer</b> ”).
<b>Administrator:</b>	Network Rail Infrastructure Ltd.
<b>Note Trustee:</b>	HSBC Trustee (C.I.) Limited.
<b>Security Trustee:</b>	HSBC Trustee (C.I.) Limited.
<b>Issuing and Paying Agent:</b>	HSBC Bank plc.
<b>Transfer Agent:</b>	HSBC Bank plc.
<b>Calculation Agent:</b>	HSBC Bank plc.
<b>Registrar:</b>	HSBC Bank USA.
<b>Account Bank:</b>	HSBC Bank plc.
<b>Programme Ratings:</b>	Fitch: AAA. Moody’s: Aa1. 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.

**Use of Proceeds:**

The proceeds of issues of Notes will be advanced by the Issuer to NRIL under the terms of an intercompany loan agreement dated on or about the date hereof (the “**Intercompany Loan Agreement**”).

**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**”). 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 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 (“**Bearer Notes**”), in bearer form exchangeable for Registered Notes (“**Exchangeable Bearer Notes**”) or in registered form only (“**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 (as defined in “**Selling Restrictions**” below), 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**”.

**Clearing Systems:**

Clearstream, Luxembourg, Euroclear 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 Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Global Notes or 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.

Issues of Notes denominated in Swiss francs or carrying a Swiss franc related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8 November 1934 (as amended) and article 15 of Federal Law on Stock Exchanges and Securities Trading of 24 March 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Corporation on Stock Exchanges and Securities Trading of 2 December 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue the lead manager (the “**Swiss Dealer**”), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer only licensed by the Swiss Federal Banking Commission as per the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the relevant issue date for such a transaction.

**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 31 March 2009 (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 Financial Services and Markets Act 2000 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 be payable in arrear on the date or dates in each year 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.

**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 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 Financial Services and Markets Act 2000

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.

**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.

**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.

**Mandatory Redemption:**

If an event of default is declared under and pursuant to the SRA Credit Support Facility Agreement, the Notes will become repayable in whole prior to their stated maturity. (See further “*Terms and Conditions of the Notes – Condition 7 (e) (Redemption following declaration by the SRA of an event of default under the SRA Credit Support Facility Agreement)*”).

**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 5 (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 the Security Trust and Intercreditor Deed. (See further “*Description of the Programme – Other Programme Documents – Security Trust and Intercreditor Deed*”).

**Credit Support Arrangements:**

The Issuer will have the benefit of a standby sterling loan facility (the “**SRA Credit Support Facility**”) provided by the SRA, drawings under which may be used by it, *inter alia*, to

repay amounts outstanding under the Notes from time to time. The Security Trustee will enter into a direct agreement dated the date hereof (the “**SRA Direct Agreement**” and, together with the SRA Credit Support Facility Agreement, the “**SRA Credit Support Documents**”) which includes the Put Option. The Put Option gives the Security Trustee the right to require the SRA to pay directly to it an option price calculated to include, *inter alia*, outstanding amounts under the Notes and Hedging Agreements, all as described in more detail in “*Description of the Programme - SRA Credit Support Documents*”.

**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 fixed and floating security over the Security Assets to the Security Trustee including:

- an assignment of its rights under the SRA Credit Support Facility Agreement, the SRA Direct Agreement, the Hedging Agreements, its material contracts and any other agreements (other than the Intercompany Loan Agreement) entered into from time to time by the Issuer and designated by the Security Trustee,
- a floating charge over the Issuer’s rights under the Intercompany Loan Agreement,
- a fixed charge over certain of the Issuer’s euro, sterling and U.S. dollar bank accounts with the Account Bank;
- a floating charge over certain of the Issuer’s euro, sterling and U.S. dollar bank accounts with the Account Bank, and
- a floating charge over all of the Issuer’s undertaking and assets which are not the subject of the assignment referred to above.

The Security Trustee holds such security for the benefit of the Programme Parties and the SRA.

**Hedging Agreements:**

In connection with the issue of any non-sterling Notes, the Issuer will enter into Hedging Agreements with hedge counterparties (the “**Hedge Counterparties**”, and each a “**Hedge Counterparty**”) each rated at certain credit ratings thresholds.

**Administration Agreement:**

Pursuant to an administration agreement (the “**Administration Agreement**”) dated on or about the date hereof between the Issuer and NRIL (in such capacity, the “**Administrator**”), the Administrator will provide certain management and administrative services in respect of the Programme.

**Restrictions:**

So long as any of the Notes remain outstanding, the Issuer will not, without the consent of the Note Trustee, incur any other indebtedness for borrowed moneys or engage in any business (other than as contemplated by this Offering Circular), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property, consolidate or merge with any other person, convey or transfer its properties or assets substantially as an entirety to any person (other than as contemplated by the Conditions) or issue any shares.

**Cross Default:**

None.

**Negative Pledge:**

Other than the Security, so long as any of the Notes remain outstanding, the Issuer shall not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Debt (as defined in “**Terms and Conditions of the Notes - Condition 4 (Negative Pledge)**”).

**Withholding Tax:**

Payments in respect of the listed Notes will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, subject to the exceptions as described in “**Terms and Conditions of the Notes – Condition 9 (Taxation)**”.

Payments in respect of unlisted Notes will be made without deduction or withholding for, or on account of any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of any jurisdiction, unless and save to the extent that the deduction or withholding of such taxes, duties, assessments or governmental charges is required by law. In that event and to that extent, unless provided otherwise in the relevant Pricing Supplement, the Issuer and the SRA, in the event that following the exercise of the option contained in the SRA Direct Agreement the payment is made by the SRA, will make payments subject to the appropriate deduction or withholding. Under current United Kingdom law, tax at the rate currently of 20 per cent. will generally be required to be deducted on payments of interest on unlisted Notes. No additional amounts will be paid by the Issuer or, to the extent



applicable, by the SRA in respect of any deductions or withholdings.

**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*”.

The Issuer is Category 1 for the purposes of Regulation S under the Securities Act (“**Regulation S**”).

Notes in bearer form 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

*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 a trust deed to be entered into on the date hereof between the Issuer and the Note Trustee (the “**Trust Deed**”) and will be limited recourse obligations of the Issuer, secured by the Security taken over the Security Assets including, in particular, an assignment of the Issuer’s rights under the SRA Credit Support Facility Agreement. 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 the Programme Maturity Date. (See further “**Terms and Conditions of the Notes**”).

### **Note Events of Default**

The Events of Default under the Notes will comprise:

- (i) SRA Events of Default, being:
  - (a) a breach by the SRA of its payment obligations under the SRA Direct Agreement;
  - (b) the insolvency of the SRA (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 SRA of the SRA Direct Agreement or the SRA Credit Support Facility Agreement, or the SRA’s obligations under those documents becoming illegal or invalid.
- (ii) Programme Termination Events, being events of default in respect of the Issuer, including:
  - (a) a failure to pay when due any amount of principal or interest on any Note and such failure continues for 14 days;
  - (b) a breach by the Issuer of any other obligation under the MTNSF Finance Documents and such default is materially prejudicial to the Noteholders and incapable of remedy within 60 days; and
  - (c) insolvency of the Issuer.

(See further “**Terms and Conditions of the Notes – Condition 11 (Events of Default)**”).

### **Consequences of a Note Event of Default**

#### *SRA Event of Default*

If an SRA Event of Default occurred, no new Notes could be issued, existing Notes would be repayable upon demand, the Security Trustee would be entitled to enforce the Security and the Hedge Counterparties would

have the right to terminate their Hedging Agreements. The Security Trustee would also be entitled to call for payment of amounts payable to the Programme Parties within any time period specified by the Security Trustee (including on a same day basis) by either drawing under the SRA Credit Support Facility or by exercising the Put Option. Unless otherwise instructed by the Majority Creditors (via the Note Trustee), the Security Trustee would exercise the Put Option.

#### *Programme Termination Event*

If a Programme Termination Event occurred, no new Notes could be issued, the Security Trustee would be entitled to enforce the Security and the SRA could either elect to continue to fund the making of scheduled payments of interest and principal on the Notes (and scheduled payments on the Hedging Agreements) until final maturity of the Notes or it could, at any time thereafter, issue an acceleration notice (a “**PTE Acceleration Notice**”) to the Security Trustee. Upon receipt of a PTE Acceleration Notice, the Security Trustee would have 40 days to serve a utilisation request under the SRA Credit Support Facility (a “**Utilisation Request**”) or a Put Option Exercise Notice in order to fund the payment of amounts payable to the Programme Parties. The Notes would become repayable on or after the 60th day following the service of the Utilisation Request or, as the case may be, Put Option Exercise Notice. Unless otherwise instructed by the Majority Creditors (via the Note Trustee), the Security Trustee would exercise the Put Option.

In such circumstances, the SRA Credit Support Facility would continue to be available and the Hedging Agreements would continue until the Settlement Date, or as applicable, the first Final Term Utilisation Date. Until such date, maturing Notes (or the relevant Hedge Counterparties) would be paid as and when due from drawings under the SRA Credit Support Facility and, in turn, Hedge Counterparties would be obliged to continue making scheduled payments as and when due. On the Settlement Date or, as applicable, first Final Term Utilisation Date, any remaining Notes would be repayable and the Hedging Agreements would terminate.

Upon being notified by the Note Trustee of the occurrence of a Programme Termination Event, the Security Trustee would be obliged immediately to so notify the SRA. If, after being so notified, the SRA decided not to serve a PTE Acceleration Notice, the payment of scheduled interest and principal on the Notes (and the related hedging payments) would be funded by the SRA through drawings under the SRA Credit Support Facility payable to the Issuer, unless the Programme Termination Event in question were the insolvency of the Issuer. If the Programme Termination Event were an insolvency of the Issuer, such payments would instead be funded by the SRA through partial exercises of the Put Option payable directly to the Security Trustee (see further “*SRA Credit Support Documents – SRA Direct Agreement – Partial Put Option*” below). For the impact of an Issuer insolvency Programme Termination Event on the Hedging Agreements, see further “*Other Programme Documents – Hedging Agreements*” below.

#### **Early redemption events**

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

- (i) at the Issuer’s option pursuant to Condition 7(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 60 nor more than 90 days’ notice to Noteholders;
- (ii) at the Issuer’s option pursuant to Condition 7(d) (*Redemption at the Option of the Issuer and Exercise of the Issuer’s Options*) upon the giving of not less than 60 nor more than 90 days’ notice to Noteholders; and
- (iii) if the SRA declares an event of default under the SRA Credit Support Facility Agreement, the Issuer will redeem the Notes at any time pursuant to Condition 7(e) (*Redemption following declaration by the*

SRA of an event of default under the SRA Credit Support Facility Agreement) by giving not less than 45 nor more than 60 days' notice to the Noteholders.

## **SRA Credit Support Documents**

### **SRA Credit Support Facility Agreement**

The Issuer, the SRA and Network Rail will enter into the SRA Credit Support Facility Agreement dated the date hereof, pursuant to which the SRA will make the SRA Credit Support Facility, a committed sterling standby loan facility, available to the Issuer. The SRA Credit Support Facility comprises, *inter alia*, (i) a revolving facility (the "**Revolving Facility**") and (ii) a standby term loan facility (the "**Final Term Facility**"). The Revolving Facility is available to the Issuer for drawing until the earlier of (a) the occurrence of a Programme Termination Event or (b):

- (i) the Programme Maturity Date;
- (ii) the giving of notice to the Issuer pursuant to Condition 11(i) following the occurrence of an SRA Event of Default;
- (iii) the giving of a notice under Condition 7(c) (*Redemption for Taxation Reasons*) or Condition 7(d) (*Redemption at the Option of the Issuer and Exercise of the Issuer's Options*);
- (iv) the receipt by the Security Trustee of notice from the SRA of the occurrence of an event of default under the SRA Credit Support Facility Agreement; or
- (v) the receipt by the Security Trustee of a PTE Acceleration Notice,

(each such event in paragraphs (i) to (v) above being a "**MTNSF Termination Event**"). The Revolving Facility is available to the Issuer to pay, on a minimum of 5 days' notice, interest and principal due on the Notes, to make payments under the Hedging Agreements and to pay certain amounts owing to the other Programme Parties. The Final Term Facility is available to the Issuer for drawing on a minimum of 60 days' notice (except where a SRA Event of Default has occurred, in which case, no minimum notice period is required) to be used by the Issuer (where required and in accordance with the terms of the SRA Credit Support Facility Agreement) to pay amounts payable to the Programme Parties upon the occurrence of a MTNSF Termination Event if the Issuer has, at such time, insufficient funds to do so (each date on which a drawing is made under the Final Term Facility being a "**Final Term Utilisation Date**" and any Utilisation Request served in respect of the Final Term Facility being a "**Final Term Request**").

Under the SRA Credit Support Facility Agreement, the SRA will make available to the Issuer (i) up to £10,000,000,000 in respect of amounts constituting "principal" (being principal under the Notes and amounts payable by the Issuer under the Hedging Agreements, but taking into account amounts paid to the Issuer under the Hedging Agreements) and (ii) an uncapped amount in respect of all other amounts owed by the Issuer to the Programme Parties (including interest and redemption premia payable in respect of the Notes, termination payments payable by the Issuer under the Hedging Agreements and the Issuer's costs and expenses) (together, the "**SRA Credit Support Facility Commitment Amount**"). The amount committed under each of the Revolving Facility and the Final Term Facility will be the SRA Credit Support Facility Commitment Amount but, as neither the Revolving Facility nor the Final Term Facility can be outstanding at the same time, the aggregate commitment of the SRA under the SRA Credit Support Facility will not, at any time, exceed the SRA Credit Support Facility Commitment Amount.

Events of default under the SRA Credit Support Facility Agreement include (i) NRIL ceasing to hold its Network Licence; (ii) the permanent closure of all or substantially all of the railway network; and (iii) certain insolvency events occurring in relation to the Issuer or Network Rail. The receipt by the Security Trustee of

notice from the SRA of the occurrence of an event of default under the SRA Credit Support Facility Agreement would entitle the Security Trustee to enforce the Security.

Amounts due under the SRA Credit Support Facility (other than under the Revolving Facility) from the Issuer to the SRA will be subordinated to amounts due from the Issuer to the Programme Parties. The rights of the Issuer under the SRA Credit Support Facility (including the right to serve a Utilisation Request) will be assigned by way of security by the Issuer to the Security Trustee, although drawings under the Revolving Facility will, in the normal course, be managed by the Administrator.

The SRA Credit Support Facility Agreement is governed by English law.

### **SRA Direct Agreement**

#### *Put Option*

Under the SRA Direct Agreement, the SRA grants to the Security Trustee an option and a right (the “**Put Option**”) to require the SRA to pay to the Security Trustee (for the benefit of the Programme Parties and the SRA) an amount (the “**Final Option Price**”) in return for an indemnity from the Issuer. The Put Option is exercisable in full by the Security Trustee serving a notice (a “**Put Option Exercise Notice**”) on the SRA upon the occurrence of a MTNSF Termination Event.

The Put Option, if exercised in full, will lead to a settlement no later than 60 days from service of the Put Option Exercise Notice (unless an SRA Event of Default has occurred in which case settlement will occur in such shorter time as specified by the Security Trustee) (the date on which the Final Option Price is payable being the “**Settlement Date**”). The Final Option Price payable on the Settlement Date would include the net termination amounts (if any) payable by the Issuer to the relevant Hedge Counterparty under the Hedging Agreements and (i) the amount needed to repay the sterling Notes then outstanding together with (ii) the sterling equivalent (calculated at prevailing rates on the Settlement Date) of the amount needed to repay outstanding non-sterling Notes, but (iii) taking into account any net termination amounts paid by Hedge Counterparties to the Issuer under the Hedging Agreements. However, the amount payable by the SRA as the Final Option Price will not exceed the SRA Credit Support Facility Commitment Amount.

#### *Partial Put Option*

The Put Option is also exercisable in part if a Programme Termination Event which is an Issuer insolvency has occurred and the SRA has not served a PTE Acceleration Notice. On each subsequent date on which an amount is owed by the Issuer under the Notes, the Hedging Agreements and the other MTNSF Finance Documents, the Security Trustee would be obliged to implement a partial exercise of the Put Option by serving a notice on the SRA (a “**Partial Put Option Exercise Notice**”) and would receive a part payment of the Final Option Price. The Security Trustee would be entitled to an unlimited number of partial exercises, until the entire Final Option Price had been paid. The Security Trustee would use amounts received as partial payment of the Final Option Price to pay the Hedge Counterparties amounts due and payable under the Hedging Agreements and to pay the Note Trustee (which would pay such sums on to Noteholders on behalf of the Issuer) amounts due and payable under the Notes.

#### *Call Option*

Under the SRA Direct Agreement, the Security Trustee will grant the SRA an option (the “**Call Option**”) on substantially the same terms as the Put Option, exercisable in full by the SRA serving a notice (a “**Call Option Exercise Notice**”) on the Security Trustee in circumstances where the Put Option is exercisable in full, but has not been so exercised by the Security Trustee.

The SRA Direct Agreement is governed by English law.

### **Transfer of SRA obligations under SRA Credit Support Documents**

The SRA may transfer its obligations under the SRA Credit Support Documents to any UK Government department of state or an entity directly wholly-owned by a UK Government department of state (which, in the case of a statutory corporation without shareholders, shall be determined by reference to the person(s) entitled to appoint the members of that statutory corporation) (the “**Substitute MTN Credit Provider**”), provided that certain conditions are met, including the consent of the Substitute MTN Credit Provider, the obtaining of all necessary regulatory consents and the Substitute MTN Credit Provider having a long term credit rating from each of the Rating Agencies of the higher of (i) their rating of the SRA at such time and (ii) a rating which, if not equal to their rating of the UK Government at such time, is not more than one notch below such rating.

It is also open to Parliament at any time in the future to create a new legal and/or regulatory framework for the railways in Great Britain. This could involve a transfer by statute of the functions and/or liabilities of the SRA. Transfers of such liabilities are covered by the Comfort Letter referred to below.

### **Comfort Letter**

The obligations incurred by the SRA under the SRA Credit Support Documents, and any body to which the SRA’s liabilities are transferred in accordance with any relevant legislation, will be the subject of the Comfort Letter. The Comfort Letter will be signed for and on behalf of the Secretary of State prior to the issuance of any Notes under the Programme. (See further “*The SRA – Secretary of State Comfort Letter*” and “*Appendix I – (Comfort Letter from Secretary of State)*”).

### **Other Programme Documents**

#### **Hedging Agreements**

The Issuer will enter into the Hedging Agreements with Hedge Counterparties. Pursuant to the Hedging Agreements, the Issuer will hedge its exposure to non-sterling currencies under non-sterling Notes (an amount payable in respect of non-sterling Notes, converted into sterling at the currency exchange rate set out in the related Hedging Agreement being the “**Hedged Sterling Equivalent**” of such non-sterling amount).

A Hedge Counterparty will have termination rights in respect of the Hedging Agreements to which it is a party where, in certain circumstances, there has been a non-payment in respect of those Hedging Agreements which has not been remedied, an event of illegality occurs under the applicable Hedging Agreement or there is an early redemption of the Notes as a result of a SRA Event of Default or another early redemption event under the Notes. The events of default and termination events in respect of a Hedge Counterparty under the Hedging Agreements (following which the Issuer may terminate the relevant Hedging Agreement) include a failure to pay amounts when due, the occurrence of an insolvency event, a breach of a term of the applicable Hedging Agreement or of the related credit support document (if any), a merger without assumption and an event of illegality under the applicable Hedging Agreement. In addition, a breach by a Hedge Counterparty of certain credit ratings thresholds will oblige that Hedge Counterparty to post collateral or transfer its obligations to a suitable third party and, if further credit ratings thresholds are breached, entitle the Issuer to terminate the relevant Hedging Agreement(s). On termination of the Hedging Agreements, a mark to market sum will be payable either by the Issuer to the relevant Hedge Counterparty or vice versa (any such amount due from the Issuer to a Hedge Counterparty as a result of an event of default by such Hedge Counterparty being a “**Hedging Agreement Subordinated Amount**”).

In addition, where an Issuer insolvency-related Programme Termination Event has been determined to have occurred, the Issuer would (unless the Issuer ceased to be insolvent), if so required by a Hedge Counterparty, be under an obligation to procure the novation of the relevant Hedging Agreements from the Issuer to the SRA or to a suitably rated appropriate third party within 60 days of notification by that Hedge Counterparty of

such requirement. A failure by the Issuer to do this would entitle the relevant Hedge Counterparty to terminate its Hedging Agreements and, where a termination payment was due to that Hedge Counterparty, that Hedge Counterparty would be entitled to instruct the Security Trustee to implement a partial exercise of the Put Option in the amount of such termination payment.

Subject to the SRA Credit Support Facility Commitment Amount, where a Hedge Counterparty fails to make a scheduled payment to the Issuer under the Hedging Agreement to which such Hedge Counterparty is party, the Issuer will be entitled to draw down an equivalent amount under the SRA Credit Support Facility. (See further “*SRA Credit Support Documents - SRA Credit Support Facility Agreement*” above).

#### **Security Trust and Intercreditor Deed**

The Issuer, the Note Trustee, the Security Trustee and the other Programme Parties will, on or about the date hereof, enter into a security trust and intercreditor deed (the “**Security Trust and Intercreditor Deed**”) setting out, *inter alia*, certain information provisions, the priorities of payments applicable to amounts payable by or on behalf of the Issuer and the Security Trustee’s rights, duties and powers and appointing HSBC Bank plc as calculation agent for the Security Trustee (the “**Security Trustee Calculation Agent**”).

#### *Information obligations*

Upon the occurrence of a Programme Termination Event, the Security Trustee would be obliged to provide the SRA with regular updates to a financing schedule, setting out (to the extent they are known) all future payment obligations of the Issuer under the Notes and the Hedging Agreements. In addition, no later than 10 business days prior to any payment date under the Notes or Hedging Agreements, the Security Trustee would issue a reminder notice to the SRA setting out the amount payable on such date and no later than five business days before any such payment date, would serve a Utilisation Request or, as the case may be, Partial Put Option Exercise Notice. The Issuing and Paying Agent and each Hedge Counterparty would, under the Security Trust and Intercreditor Deed, be under back-to-back obligations to provide the necessary information to the Security Trustee.

#### *Priorities of Payments*

Prior to the Settlement Date or, as applicable, the first Final Term Utilisation Date, the order in which payments are to be made from the Issuer Transaction Accounts or the Prefunding Accounts on any date on which such payment is permitted to be made in accordance with the following paragraphs, will be as follows:

- (i) *first*, (to the extent not paid from the Expenses Account) in or towards payment on a *pro rata* and *pari passu* basis of the remuneration, costs and expenses (together with interest and irrecoverable VAT) due and payable to the Security Trustee (or any of its delegates or sub-delegates) and the Note Trustee under the MTNSF Finance Documents;
- (ii) *second*, (to the extent not paid from the Expenses Account) to pay on a *pro rata* and *pari passu* basis the remuneration, costs and expenses due and payable to:
  - (a) the Agents under the MTNSF Finance Documents;
  - (b) the Account Bank under the MTNSF Finance Documents and the bank account mandates;  
and
  - (c) the Dealers and the Arranger under the MTNSF Finance Documents,  
together, in each case, with interest and irrecoverable VAT payable in respect of such amounts;
- (iii) *third*, on a *pro rata* and *pari passu* basis, on any Interest Payment Date:
  - (a) to pay any amounts of interest due and payable on the sterling Notes on such date;

- (b) to pay any amounts of interest due and payable on the non-sterling Notes on such date;
  - (c) to pay the Hedged Sterling Equivalent of any amounts of interest due and payable on the non-sterling Notes to the Hedge Counterparties; and
  - (d) to make scheduled payments in respect of any interest rate Hedging Agreements relating to sterling Notes to the Hedge Counterparties;
- (iv) *fourth*, on a *pro rata* and *pari passu* basis:
- (a) to pay any amounts of principal due and payable on the sterling Notes;
  - (b) to pay any amounts of principal due and payable on the non-sterling Notes on such date; and
  - (c) to pay the Hedged Sterling Equivalent of any amounts of principal due and payable on the non-sterling Notes to the Hedge Counterparties;
- (v) *fifth*, (to the extent not paid from the Expenses Account) on a *pro rata* and *pari passu* basis, to pay fees, costs and expenses (together with irrecoverable VAT) and any other amounts due and payable to the Programme Parties under the MTNSF Finance Documents (excluding Hedging Agreement Subordinated Amounts) to the extent not paid under paragraphs (i) to (iv) above;
- (vi) *sixth*, to pay or prepay amounts in satisfaction of all amounts of fees, costs and expenses and interest due and payable and principal outstanding under the Revolving Facility;
- (vii) *seventh*, to pay any amounts due and payable to any Hedge Counterparty in respect of any Hedging Agreement Subordinated Amounts;
- and, unless and until the occurrence of an Event of Default under the Notes or the Security Trustee receives notice from the SRA of an event of default under the SRA Credit Support Facility Agreement;
- (viii) *eighth*, to pay remuneration, costs, expenses (together with irrecoverable VAT) and any other amounts due and payable to the Administrator under the Administration Agreement;
- (ix) *ninth*, to make certain indemnity payments to NRIL and to pay NRIL certain amounts due to it under the Intercompany Loan Agreement; and
- (x) *tenth*, the surplus, if any, to lend to NRIL under the terms of the Intercompany Loan Agreement.

On or after the Settlement Date or, as applicable, the first Final Term Utilisation Date, all monies held in the Issuer Accounts and all monies received or recovered by or on behalf of the Security Trustee shall be held by the Security Trustee upon trust to be applied in payment in the amounts required, in the following order of priority:

- (i) *first*, in or towards payment on a *pro rata* and *pari passu* basis of or on account of the fees, costs, charges, expenses and other amounts (together with interest and irrecoverable VAT) payable to the Security Trustee (or to any of its delegates or sub-delegates or to any receiver or receivers appointed by the Security Trustee) or the Note Trustee under the MTNSF Finance Documents;
- (ii) *second*, in or towards payment on a *pro rata* and *pari passu* basis of the :remuneration, costs and expenses payable to
  - (a) the Agents under the MTNSF Finance Documents;
  - (b) the Account Bank under the MTNSF Finance Documents and the bank account mandates; and
  - (c) the Dealers and the Arranger under any MTNSF Finance Document,



together, in each case, with interest and irrecoverable VAT payable in respect of such amounts;

- (iii) *third*, in or towards payment on a *pro rata* and *pari passu* basis of:
  - (a) any amounts of interest and principal due and payable on the Notes; and
  - (b) all amounts due and payable to any Hedge Counterparty in respect of any Hedging Agreement other than Hedging Agreement Subordinated Amounts;
- (iv) *fourth*, in or towards payment on a *pro rata* and *pari passu* basis, of any fees, costs and expenses (together with irrecoverable VAT) and any other amounts due and payable to the Programme Parties under the MTNSF Finance Documents (excluding Hedging Agreement Subordinated Amounts) to the extent not paid under paragraphs (i) to (iii) above;
- (v) *fifth*, in or towards payment of amounts due and payable to any Hedge Counterparty in respect of any Hedging Agreement Subordinated Amounts;
- (vi) *sixth*, (following the Availability Period End Date) in or towards payment or prepayment of all amounts of fees, interest and principal due and payable to the SRA and all other amounts due and payable to the SRA under the MTNSF Finance Documents;
- (vii) *seventh*, (following the Availability Period End Date) in or towards payment of remuneration, costs, expenses (together with irrecoverable VAT) and any other amounts due and payable to the Administrator under the Administration Agreement;
- (viii) *eighth*, (following the Availability Period End Date) to make certain indemnity payments to NRIL and to pay NRIL certain amounts due to it under the Intercompany Loan Agreement; and
- (ix) *ninth*, (following the Availability Period End Date) the surplus (if any) after the payment in full of the amounts referred to above shall be paid to or to the order of the Issuer or to such other person as the Issuer may notify to the Security Trustee or as otherwise required by a court of competent jurisdiction or applicable law.

On the day following the Availability Period End Date the Security Trustee shall pay to the SRA, in priority to sums payable to any person under this priority of payments, any amount paid by the SRA to the Issuer or the Security Trustee pursuant to the SRA Credit Support Facility Agreement or under the SRA Direct Agreement that exceeds the amount which was, on the basis of actual rates obtained and actual liabilities owed by the Issuer, entitled to be demanded by or on behalf of the Issuer or the Programme Parties.

Pursuant to the Security Trust and Intercreditor Deed, the obligations of the Issuer under the MTNSF Finance Documents are limited in recourse to the assets of the Issuer from time to time.

#### **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 the Security Trustee, the Note Trustee (on behalf of itself and the Noteholders), the Dealers, the Arranger, the Agents, the Security Trustee Calculation Agent, the Account Bank, the Hedge Counterparties (together the “**Programme Parties**”) and the SRA over certain of its assets (the “**Security Assets**”) including:

- (i) an absolute assignment by way of first fixed security of all of its rights, title, interest and benefit under, in and to the SRA Credit Support Facility Agreement, the SRA Direct Agreement, each Hedging Agreement, the Trust Deed, the Dealer Agreement, the Agency Agreement and the Administration Agreement;

- (ii) 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 certain accounts held in the Issuer's name with the Account Bank, including:
  - (a) a sterling expenses account (the "**Expenses Account**");
  - (b) a sterling prefunding account (the "**Sterling Prefunding Account**");
  - (c) a euro prefunding account (the "**Euro Prefunding Account**");
  - (d) a U.S. dollar prefunding account (the "**U.S.\$ Prefunding Account**" and, together with the Sterling Prefunding Account and the Euro Prefunding Account, the "**Prefunding Accounts**"); and
  - (e) certain hedge collateral accounts (the "**Hedge Collateral Accounts**");
- (iii) a first floating charge over all of its assets not otherwise secured under the Deed of Charge, including the following bank accounts held in the Issuer's name with the Account Bank (together with the Expenses Account, the Prefunding Accounts and the Hedge Collateral Accounts, the "**Issuer Accounts**"):
  - (a) a sterling transaction account (the "**Sterling Transaction Account**");
  - (b) a euro transaction account (the "**Euro Transaction Account**"); and
  - (c) a U.S. dollar transaction account (the "**U.S.\$ Transaction Account**" and, together with the Sterling Transaction Account and the Euro Transaction Account, the "**Issuer Transaction Accounts**"), and

the Issuer's rights under the Intercompany Loan Agreement.

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. However, drawings under the SRA Credit Support Facility may be used by the Issuer to repay amounts outstanding under all Notes in issuance under the Programme from time to time and the Put Option under the SRA Direct Agreement gives the Security Trustee the right to require the SRA to pay to it an option price calculated to include, *inter alia*, amounts outstanding under all Notes in issuance under the Programme from time to time.

#### **Administration Agreement**

Pursuant to the Administration Agreement, the Administrator will provide certain management and administrative services in respect of the Programme. 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 MTNSF Finance Documents; and (iii) establishing, operating and maintaining bank accounts in the name of the Issuer in accordance with the MTNSF Finance Documents.

Following the occurrence of certain events (including, without limitation, breach by the Administrator of any of its obligations under the Administration Agreement, an insolvency event 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 (with the consent of the Security Trustee) 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, acceptable to the Security Trustee.

#### **Intercompany Loan Agreement**

The proceeds of issuance of each Series of Notes 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 certain payments of interest and principal to the Issuer 6 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 Prefunding Accounts). Amounts due from NRIL to the Issuer under the Intercompany Loan Agreement will be subordinated to amounts due from NRIL to its other unsecured creditors. The final maturity date of any loans made under the Intercompany Loan Agreement will be the Programme Maturity Date.

The Intercompany Loan Agreement is governed by English law.

#### **Account Bank**

The account bank is HSBC Bank plc (the “**Account Bank**”), a wholly owned subsidiary of HSBC Group and provides a comprehensive range of banking and related financial services through a network of 1,633 branches in the United Kingdom and its overseas offices. As at 30 June 2003, the Account Bank had total assets of approximately U.S.\$983 billion and shareholders funds of approximately U.S.\$70.2 billion. HSBC Group’s short term debt is currently rated P-1 by Moody’s, A1 by S&P and F1+ by Fitch and its long term senior debt is rated Aa3 by Moody’s, A+ by S&P and AA- by Fitch.

#### **Miscellaneous Definitions relating to the Programme**

“**Availability Period End Date**” means the earlier to occur of (i) the date on which all amounts payable by the Issuer under the MTNSF Finance Documents (other than to the SRA) have been paid in full to the Security Trustee following the occurrence of a MTNSF Termination Event and (ii) the date falling 40 days after the occurrence of the first MTNSF Termination Event, unless within that 40-day period the SRA receives a Utilisation Request from the Issuer or the Security Trustee in respect of the Final Term Facility or either the Put Option or the Call Option is exercised in accordance with the terms of the SRA Direct Agreement.

“**Majority Creditors**” means the requisite percentage of Noteholders required in accordance with the provisions of the Trust Deed.

“**MTNSF Finance Documents**” means the Security Trust and Intercreditor Deed, the Notes, the Dealer Agreement (including any subscription agreements entered into in connection with the Dealer Agreement), the Trust Deed, the Agency Agreement, the Hedging Agreements, the SRA Credit Support Facility Agreement, the Deed of Charge (including the security power of attorney granted to the Security Trustee thereunder), the SRA Direct Agreement, certain fee letters and any other document designated as a MTNSF Finance Document by the SRA, the Security Trustee and the Issuer.

## 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 that NRIL is unable to repay to the Issuer the amounts it owes under the Intercompany Loan Agreement, the Issuer has recourse to the SRA Credit Support Facility. In deciding to purchase the Notes, Noteholders will ultimately be relying on the SRA Credit Support Documents and the creditworthiness of the SRA. The rating of the Notes is linked directly to that of the SRA.

### **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 SRA Credit Support Documents 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 pay, Noteholders are therefore reliant on additional funding being provided to the SRA by the UK Government at such time as the obligations under the SRA Credit Support Documents 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, Parliament voting funds to the Department for Transport (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 2003, 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 DfT's future sponsorship and future parliamentary approval for its annual expenditure would be forthcoming. 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 SRA Credit Support Documents 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 SRA Credit Support Documents impose 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. 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 1986. 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.

#### **Secretary of State Comfort Letter**

The Secretary of State states in the letter addressed, among others, to the Noteholders, the form of which is reproduced in Appendix I (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 SRA Facility<sup>1</sup> and/or the Put Option and/or the Call Option and that the SRA, or any body to which the SRA's liabilities are transferred in accordance with any relevant legislation permitting such a transfer, is in a position to meet its liabilities under the SRA Facility<sup>1</sup> and/or the Put Option and/or the Call Option 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 SRA Facility<sup>1</sup> and/or the Put Option and/or the Call Option, 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 expressed for the SRA in the Comfort Letter will not be withdrawn without notice or liability to Noteholders or any other person.

#### **Security, Limited Recourse and the Put Option**

The Notes constitute secured, limited recourse obligations 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 (as defined in the Deed of Charge) (see "**Description of the Programme - Other Programme Documents - Deed of Charge**" for a full description of the security). The security created by the Issuer is held by the Security Trustee on trust for the Noteholders and the other Secured Creditors.

On enforcement of the security for the Notes, 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 will have no further claim against the Issuer in respect of any unpaid amounts.

It should be noted, however, that the Security Assets includes an assignment of the Issuer's rights to drawdown under the SRA Credit Support Facility pursuant to which the Issuer has the right to borrow from the SRA the amounts needed, *inter alia*, to pay outstanding amounts under the Notes. In addition, the SRA Credit Support Documents include the Put Option which gives the Security Trustee an option and a right to require the SRA to pay directly to it an option price which, *inter alia*, is calculated to include outstanding

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<sup>1</sup> References to "SRA Facility" in the Comfort Letter are to the SRA Credit Support Facility in this Offering Circular.

amounts under the Notes. See further “*Description of the Programme - SRA Credit Support Documents - SRA Direct Agreement*”.

#### **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 Note Trustee, the Security Trustee, the Agents, the SRA, DfT or any other part of UK Government, Network Rail, NRIL, the Arranger, the Dealers, the Account Bank or any Hedge Counterparty. 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. However, where the Issuer fails to pay under the Notes, the Put Option can be exercised by the Security Trustee as a result of which the SRA would be obliged to pay to the Security Trustee an option price which, *inter alia*, would be calculated to cover outstanding amounts under the Notes.

#### **Hedging Risks**

The Noteholders may be exposed to currency risk in the event that the Issuer fails to enter into a Hedging Agreement in respect of amounts payable in a non-sterling currency because the SRA's obligations under the SRA Credit Support Documents are limited to a principal amount under the Notes of £10 billion. In such a circumstance the funds available to the Issuer may be insufficient to meet fully its obligations under the Notes. The Issuer has covenanted in favour of the Security Trustee and the SRA that it will always enter into such Hedging Agreements in respect of each issue of Notes denominated in a non-sterling currency.

#### **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 Noteholders 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 12 August 2003 as a public company with limited liability under the Companies Act 1985 (the “**Companies Act**”) with registration number 4864307. 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, all of which have been issued at par and paid up as to £0.25. Pursuant to a Declaration of Trust dated 12 February 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:

<b>Name</b>	<b>Other Principal Activities</b>
Fred Maroudas*	Director of Funding, Network Rail and Director of Network Rail CP Finance PLC
Nigel Bradley	Director of Network Rail CP Finance PLC
Jonathan Rigby	

\*Network Rail appointed Director

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

The Issuer’s sole activity is to act as the issuer under the Programme. 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 25 February 2004:

Shareholders’ Funds:

	(£)
Share Capital (50,000 shares of £1 each issued and partly paid up to £0.25) .....	12,500
Total capitalisation: .....	<u>12,500</u>

As at 25 February 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 25 February 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 180 The Strand, London WC2R 1BL.

The Directors  
Network Rail MTN Finance PLC  
26 February 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 26 February 2004 (the “**Offering Circular**” of Network Rail MTN Finance PLC (the “**Issuer**”)).

#### **Basis of preparation**

The financial information set out below is based on the unaudited financial statements of the Issuer from incorporation to 25 February 2004, to which no adjustments were considered necessary.

#### **Responsibility**

Such unaudited financial statements are the responsibility of the directors of the Issuer.

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 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 gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Issuer as at 25 February 2004.



## 1 Balance Sheet

The balance sheet of the Issuer as at 25 February 2004 was as follows:

	Notes	(£)
<b>Current assets</b>		
Cash at bank and in hand .....		12,500
<b>Net assets</b> .....		<u>12,500</u>
<b>Represented by:</b>		
Called up share capital .....	2.3	12,500
		<u>12,500</u>

## 2 Notes to the financial information

### 2.1. Incorporation

The Issuer was incorporated in the name of “Network Rail CP Finance 2 PLC” on 12 August 2003 and subsequently changed its name to “Network Rail MTN Finance PLC”. Save for issuing 50,000 ordinary shares with a nominal value of £1 each as described in 2.3 below and entering into the agreements described in 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. 50,000 ordinary shares have been issued and partly-paid to £0.25 each. The outstanding £0.75 in respect of each ordinary share has not been called up.

### 2.4. Controlling Party

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

Yours faithfully

**Deloitte & Touche LLP**

## THE NETWORK RAIL GROUP

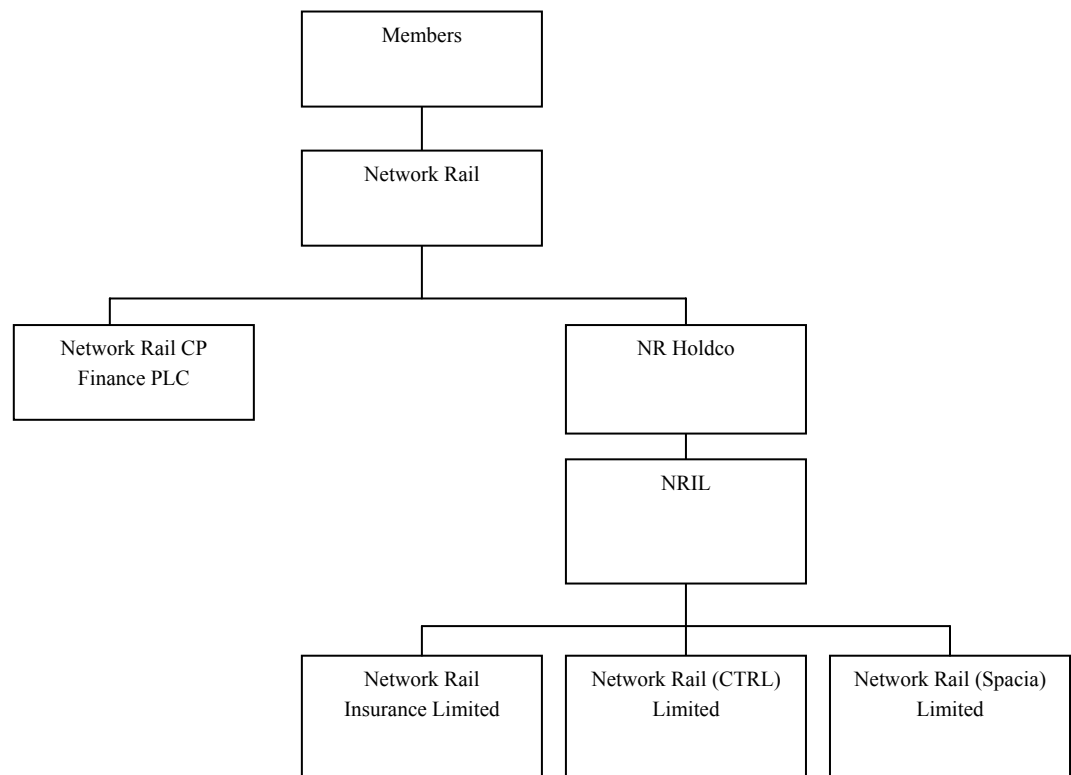
### Network Rail Limited

#### Corporate Description

Network Rail Limited (“**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 (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.

Network Rail (Spacia) Limited manages for commercial gain certain parts of NRIL's non-operational property.

For a description of NRIL see "*Network Rail Infrastructure Ltd.*" below.

#### **Relationship between the SRA and the Network Rail Group**

The SRA has a number of powers, rights and obligations in relation to the Network Rail group which include the special membership rights discussed under "*SRA Special Membership Rights*" below, the provision of grant support payments and the provision of a number of standby credit facilities (see "*The SRA - SRA's Financial Position*").

In addition the SRA and NRIL have entered into an enhancement facilitation agreement on 3 October 2002, a framework document under which provision is made for the SRA and NRIL to work together to deliver enhancement projects to the network. The agreement sets out the nature of and limits on certain risks in relation to the development and carrying out of enhancement projects and the remuneration to which NRIL is to be entitled for the provision of services under the agreement.

Given the SRA's powers and rights, together with the financial support package that the SRA provides to Network Rail, 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 the 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 the Network Rail group have been consolidated into the SRA's accounts from 3 October 2002.

#### **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: (a) the SRA, (b) rail industry members who are rail licence holders or preferred bidders for franchises to provide passenger railway services, and (c) 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 nominations 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 and, in certain circumstances, to remove all other members of Network Rail.

#### **Board**

Network Rail's board of directors consists of 12 directors of which 5 are executive and 7 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 Armitt.

## Network Rail Infrastructure Ltd

### 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 NRIL, 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, NRIL, as a protected railway company under 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 NRIL from Railtrack Group 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 £0.001 each and 500,000,000 redeemable shares of £1 each. The issued share capital of NRIL consists of 50,084,937 ordinary shares of £0.001 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. (See further “*Description of the Programme - Other Programme Documents - Administration Agreement*”).

### Directors of NRIL

The directors of NRIL and their respective business occupations are:

<b>Name</b>	<b>Business Occupation</b>	<b>Other Principal Business Occupations</b>
Ian McAllister*	Chairman	Chairman of the Carbon Trust and Senior Non-Executive Director of Scottish & Newcastle plc
Adrian Montague*	Deputy Chairman and Chairman of Property Board	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	Safety and Compliance Director	
Peter Henderson	Projects and Engineering Director	
Jim Cornell*		
Robert den Besten*		

<b>Name</b>	<b>Business Occupation</b>	<b>Other Principal Business Occupations</b>
Charles W Hoppe*		
Ross Sayers*		Chairman of Associated British Ports Holdings PLC
David Bailey*+		Director of the Southern Region New Trains Programme at the SRA

\* Non-Executive Director

+ SRA nominated Director

Each of the directors is also a member of the board of Network Rail. Ian McAllister, Adrian Montague, Iain Coucher and Ron Henderson are also directors of NR Holdco.

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 train operating companies (“**TOCs**”) but NRIL itself operates a number of main line stations (the “**Major 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 Major Stations pursuant to a station licence, both granted by the Secretary of State under the Railways Act. Both the Network Licence and station licences 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 Rail Regulator 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) direct subsidies from the SRA in the form of revenue grants. In addition, NRIL receives 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, freight and other train operators, stations, depots and certain other assets. The track access agreements entered into between the TOCs and NRIL allow the Rail Regulator 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 SRA to meet its obligations under the SRA Credit Support Documents 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 principal office is located in England at 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 is not to be regarded as the property of or held on behalf of the Crown.

### Governance

Sections 202 and 203 of 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:

<b>Name</b>	<b>Business Occupation</b>	<b>Other Principal Activities</b>
Richard Bowker	Chairman and Chief Executive	Member of Commission of Integrated Transport and Fellow of the Institute of Logistics and Transport.
David Quarmby	Deputy Chairman	Board Member of Transport for London, Vice President of The Bluebell Railway Preservation Society and Governor of the University of Greenwich.
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.
Millie Banerjee		Member of the Cabinet Office Strategy Group, Non-executive director of Ofcom and the Sector Skills Development Agency. Trustee 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 Portobello Partnership, Board Member of Transport for London and Board Member of Greater Manchester Passenger Transport Executive.

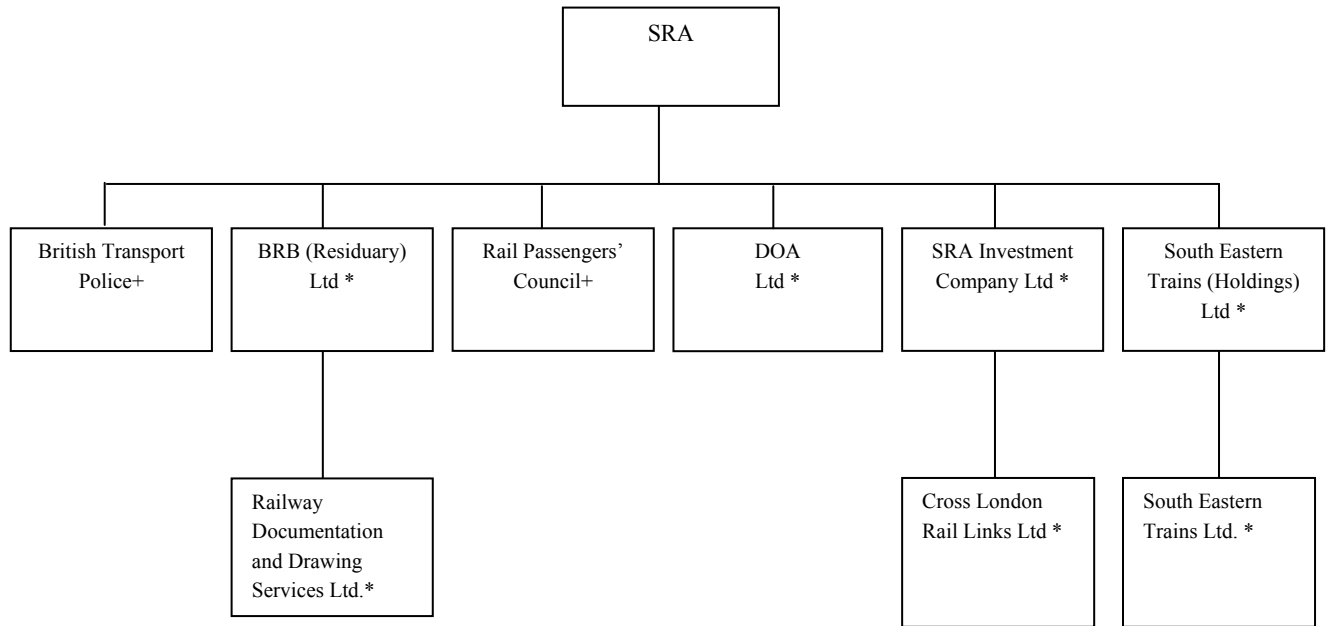
<b>Name</b>	<b>Business Occupation</b>	<b>Other Principal Activities</b>
Willie Gallagher		Director of Touchdown Services Ltd. and Non-Executive Board member of Lothian Buses PLC, the Institute of Electrical Engineers and the Scottish Legal Aid Board.
David Grayson		Partner at Irwin-Grayson Associates, 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, The Carnegie UK Trust, The Police Foundation and the Institute of Rural Health.
Pen Kent	Senior Independent Board Member	Chairman of Blind in Business, 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		Executive Director, Clothing, Outlets and International of Marks & Spencer plc.

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 British Transport Police and 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

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.

The British Transport Police is a division of the SRA which is managed on an autonomous basis and is responsible to the British Transport Police Committee. The Railways and Transport Safety Act 2003 established the British Transport Police Authority and it will take over the staff and property of the British Transport Police from the SRA<sup>1</sup> from a date to be appointed by the Secretary of State.

SRA Investment Company Limited is the holding company of Cross London Rail Links Ltd.

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.

DOA Ltd. is responsible for 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**”).

Cross London Rail Links Ltd, jointly owned by Transport for London and the SRA, is developing a proposal for the construction of a new railway under central London known as Crossrail.

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.

<sup>1</sup> DfT anticipate that the British Transport Police Authority will be formally established on 1 July 2004.

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 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 early 2005.

### **Statutory Purposes**

The SRA’s statutory purposes, as set out in Section 205 of the Transport Act, are (a) to promote the use of the railway network for the carriage of passengers and goods, (b) to secure the development of the railway network and (c) to contribute to the development of an integrated system of transport of passengers and goods.

### **Strategies**

The SRA must formulate and keep under review “strategies” in consultation with the Rail Regulator, the Scottish Ministers and the National Assembly for Wales with respect to its statutory purposes. The Transport Act requires the SRA to publish its strategies, including the annual Strategic Plan which sets out the SRA’s strategic priorities for the railway in Great Britain over the next ten years, the most recent of which was published in January 2003. The SRA’s goals reaffirmed in the Strategic Plan 2003 are: growth over the period of the UK Government’s 10 Year Plan (for further details on the 10 Year Plan see “*Overview of the Rail Industry in Great Britain - UK Government’s Transport Policy*”) of 50 per cent. in passenger traffic (measured in passenger kilometres), and 80 per cent. in freight traffic (measured in freight tonne kilometres); reducing overcrowding on services within the London area to meet standards set by the SRA; and improving performance in the form of train service punctuality and reliability.

### **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)). The SRA has been given two primary objectives under the Directions and Guidance: to deliver the targets set out in the 10 Year Plan; and to work with the rail industry to achieve substantial and lasting improvements in performance. The SRA should also aim to secure fresh private investment and use the most effective and innovative means to introduce capital support into the industry, address market failures and maximise the capacity to raise private capital by including a range of funding mechanisms. The objectives which the SRA is required to deliver include providing leadership for the rail industry and ensuring that different parts of the industry work co-operatively towards common goals; securing increases in the capacity of the railway to accommodate the expected growth in passenger and freight traffic; developing a policy for the utilisation of network capacity and achieving a significant improvement in the resilience of railway operations. On 19 February 2004, the Secretary of State issued directions to the SRA to enter into the SRA Credit Support Documents, the form of which is reproduced in Appendix II 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, (a) 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)), (b) 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 (c) 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.

### **Sources of Funding**

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 approved in supplementary estimates. Additional grant-in-aid is paid by the Scottish Executive and can 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 3 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 31 January 2004 £11.1 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.

### **SRA's Financial Position**

As at 31 March 2003, the consolidated balance sheet for the SRA (excluding Network Rail group) shows net liabilities of £1,580,100,000. 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 agreed spending plan for the DfT over the next 3 years.

The SRA recorded a loss for the financial year 2002/3, 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. 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. As set out above, UK Government accounting guidance does not allow grant income, which will ultimately fund the utilisation of these provisions, to be recognised until the cash expenditure is voted by Parliament.

Grants-in-aid for 2003-4, 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 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 2002 and 2003 is set out in "**Appendix IV (Financial Statements of the SRA)**" 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 SRA Credit Support Documents. 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**").

Because of the relationship between the SRA and the Network Rail group (see "**The Network Rail Group - Relationship between the SRA and the Network Rail Group**"), 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.

The SRA has a number of contingent liabilities which include the provision of financial support to the Network Rail group.

Network Rail currently benefits from certain SRA support, which is capped at £21.05 billion in relation to principal. The amount of support provided to Network Rail in relation to principal will not increase as a result of the Programme. The way in which the support for the Network Rail group is allocated is set out below:

	<b>Pre-Programme £bns</b>		<b>Post-Programme £bns</b>
Bank bridge facility	9.00	down to	2.00
EIB/KfW facilities	1.05		1.05
CP Programme support facility	4.00		4.00
SRA loan facility	3.00		-
Support for the Programme	-	up to	10.00
SRA credit facility (long term contingency buffer)	<u>4.00</u>		<u>4.00</u>
<b>Total SRA support</b>	<b>21.05</b>		<b>21.05</b>

Each of these elements of support is the subject of comfort from the Secretary of State (see “*Secretary of State Comfort Letter*” and “*Rating*” below). 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*”.

#### **Applicability of Insolvency Act 1986**

The SRA may be capable of being the subject of insolvency proceedings under the Insolvency Act 1986. 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 1986. 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 letter of comfort 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 the SRA, any holders of the Notes issued under the Programme, the Security Trustee and the Hedging Counterparties is set out in Appendix I (the “**Comfort Letter**”).

The Comfort Letter may be relied upon as a correct representation of the Secretary of State's intention (as at the date of the Comfort Letter) as regards matters referred to therein. It does not create binding obligations and must not be relied upon as doing so. In particular nothing in the Comfort Letter should be construed as a guarantee by the Secretary of State, HM Treasury or any instrumentality of the UK Government 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.

**Rating**

The SRA is rated AAA by S&P and Fitch and Aa1 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 was 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 31 January 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 SRA Credit Support Documents, which turns principally on the UK Government continuing provision of funding to the SRA as 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 SRA Credit Support Documents.

	(£)m
<b>Reserves</b>	
Reserves .....	(1,424.5)
<b>Indebtedness</b>	
Amounts falling due within one year	
Receipts in advance .....	30.9
Trade creditors .....	60.8
Accruals and deferred income .....	156.0
Payroll, taxation and social security .....	21.4
Interest accrued on capital liabilities .....	-
Leasing liabilities.....	1.8
PTE Loans .....	11.1
Other.....	23.0
Amounts falling due after more than one year	
PTE Loans .....	147.2
Leasing Liabilities .....	71.7
<b>Total Indebtedness: .....</b>	<b>523.9</b>

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

### Notes:

#### Contingent Liabilities

- (a) British Rail 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) British Rail, 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, British Rail 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 Channel Tunnel. The transfer of this contract from British Rail to the SRA is being progressed.

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

- (c) Following the acquisition of Railtrack PLC by Network Rail group, the Rail Regulator commenced an interim review of the charging regime used by NRIL. Final conclusions were produced in December 2003. The funding of the expenditure decisions within this review are yet to be finalised and the potential effect on the SRA Group accounts cannot therefore be quantified. Under the terms of the franchise agreements with TOCs, which hold the TOCs harmless from the impact of the changes arising from the regulatory review, these changes will result in a change to the payments made by or to the SRA.

- (d) In addition, the SRA has the following contingent liabilities relating to financial support provided to Network Rail group in respect of a number of credit facilities, including:

- (1) A credit facility of £10bn together with related agreements, which in specified circumstances allow providers of finance to the Network Rail group to recover amounts lent directly from the SRA. The Network Rail group has secured a £9bn credit facility with 9 banks, each providing a £1bn commitment.
- (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.

With the exception of the long-term contingency buffer, the above facilities either expire, or are capable of extension such that they expire, in 2005. The long-term contingency buffer has a term of 50 years.



## OVERVIEW OF THE RAIL INDUSTRY IN GREAT BRITAIN

### Background

On 1 April 1994, almost all of British Rail's operational railway infrastructure and some other property, was transferred to NRIL, at that time known as "Railtrack PLC" and a wholly owned subsidiary of Railtrack Group PLC, itself wholly owned 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. 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.

Upon application to the High Court by the Secretary of State, NRIL, as a protected railway company under 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 NRIL from Railtrack Group 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".

Today, almost all heavy rail services in Great Britain are provided by private sector companies.

### UK Government's Transport Policy

The UK Government has developed its objectives for the railway as part of its integrated transport policy. The Integrated Transport White Paper entitled "A new deal for Transport: Better for everyone", published in July 1998, sets out the UK Government's transport policy. "Transport 2010 – The 10 Year Plan" published in July 2000 by the Department of the Environment, Transport and the Regions (the predecessor of the DfT) (the "**10 Year Plan**") sets out how that policy is intended to be delivered. The UK Government issued its first progress report on the 10 Year Plan in December 2002. The 10 Year Plan and the progress report indicated the role that the UK Government expected the rail industry to play in improving the nation's transport infrastructure, particularly by reducing road congestion and greenhouse gas emissions.

The UK Government's key targets for the railway are set out in Annex 2 to the 10 Year Plan, and include the following:

- to increase rail use in Great Britain (measured in passenger kilometres) from year 2000 levels by 50 per cent. by 2010, with investment in infrastructure and capacity, while at the same time securing improvements in punctuality and reliability;
- to reduce London rail overcrowding to meet SRA standards by 2010; and
- to increase significantly rail freight's share of the freight market by 2010.

The 10 Year Plan recognises that the UK Government needs to provide substantial financial support for the railway industry which cannot be raised from fares and access charges alone. The 10 Year Plan states that public sector support for the railways will be injected through a number of channels including making revenue payments to TOCs to support passenger services which cannot be fully funded through fares, to FOCs to defray the costs of FOCs' track access charges and to remunerate private sector investment. Capital payments towards some of the cost of renewing the network would also be made direct by the SRA to NRIL. Support for enhancing the capacity of the network will be paid by the SRA to supplement NRIL's resources and lever in private capital from other sources.

The 10 Year Plan is to be reviewed in mid to late summer 2004 to coincide with the UK Government's next public expenditure review. As part of that spending review the SRA is working with the DfT to assess the

expected costs and outputs from the railway industry as a whole to establish the value of continued public sector support. The results of this work form part of the DfT's formal spending review submission to HM Treasury. It is expected that the DfT will incorporate into any updated version of the 10 Year Plan the conclusions it reaches on the level of passenger and freight services that it wishes to support.

On 19 January 2004, the Secretary of State announced that the UK Government was to undertake a review of the railways (see "*Introduction to the Transaction – Rail Review*").

#### **Passenger Services**

Rail's overall market share is 6 per cent. of all passenger travel (measured in passenger kilometres), but this proportion grows to 10–20 per cent. for longer distance journeys and to 25–75 per cent. for journeys to city centres. Rail provides for over 42 per cent. of travel into central London in the morning peak (including people who later transfer to London Underground or Docklands Light Railway). Rail carries 40 per cent. of travel between the city centres of Manchester and Leeds and 55 per cent. between Manchester and Newcastle. In the period from 1994-95 to 2002-03, there has been a 33 per cent. increase in passenger journeys and a 38 per cent. increase in passenger kilometres.

#### **Rail Freight Services**

Over the period from 1994-95 to 2001-02, rail freight's relative share of the freight market has increased by 5.9 per cent. to 7.7 per cent. There has been an increase of 44 per cent. in rail net tonne kilometres from a low point reached in 1994-95. In 2002-03 nearly 19 billion tonne kilometres of freight were moved, in comparison to 13 billion tonne kilometres in 1994-95.

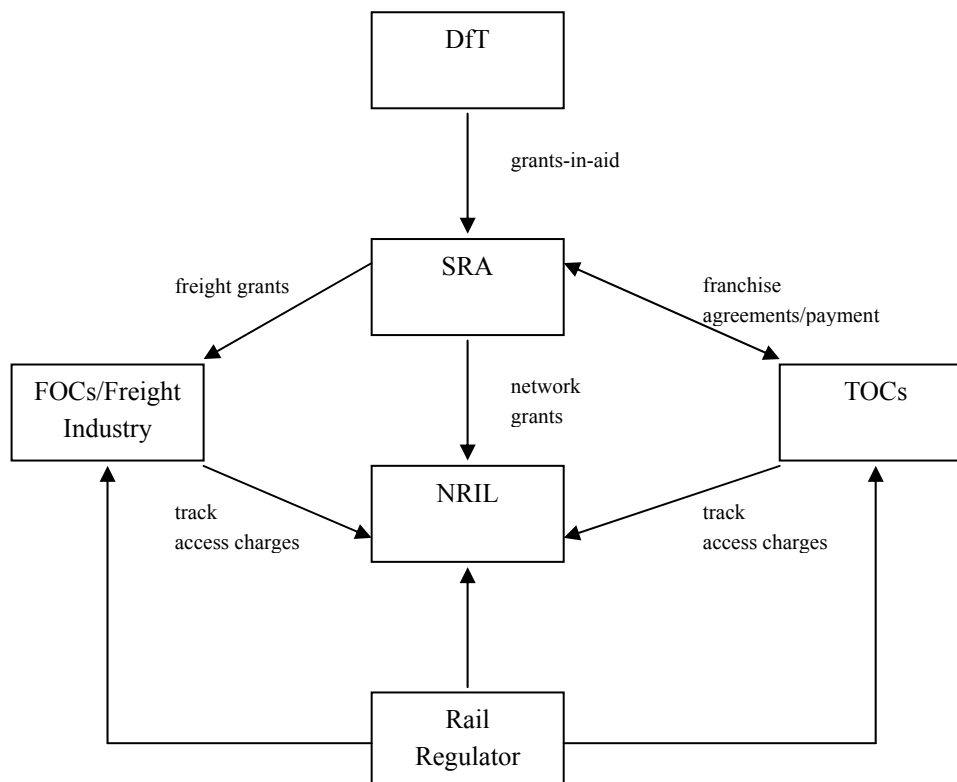
## Current Structure

### Summary of the Structure of the Railways Industry in Great Britain

The Railways Act 1993 (as amended by the Transport Act 2000) (the “**Railways Act**”) made provision for the restructuring and privatisation of British Rail and authorised the functions of management of the railway infrastructure and provision of train services to be carried on separately.

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*”.

### TOCs and FOCs



There are at present approximately 30 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 the Rail Regulator (other than on the Isle of Wight, where Island Line Express Limited leases the railway infrastructure from NRIL).

The passenger rail service operations of 23 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 termini.

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 principally funded from receipts from passenger ticket sales. In respect of franchised TOCs, the franchise agreement sets out the level of payments made by or to the SRA. The principal payment consists of

a fixed charge and additional payments are made 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 the Rail Regulator's access charges reviews and certain cost changes arising out of certain changes of law.

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**

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 Health and Safety Executive (the "HSE") pursuant to the Railways (Safety Case) Regulations 2000, as amended.

The Transport Act 2000 created the SRA and defines its functions. The functions of the Rail Regulator are set out in the Railways Act. The Railways and Transport Safety Act 2003 makes provision for the creation of the Office of Rail Regulation, which it is anticipated will succeed to the functions of the Rail Regulator on 5 July 2004.

The SRA, the Rail Regulator and the Health and Safety Commission (through its operational arm, the 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*".

### **The Secretary of State for Transport**

The Secretary of State shares general duties with the Rail Regulator 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 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 and the Transport Act including: appointment of the Rail Regulator (and under the Railways and Transport Safety Act 2003, the appointment of the Chairman and board members of the Office of Rail Regulation), the Chairman and members of the SRA, providing general guidance to the Rail Regulator 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 the Rail Regulator and the SRA or giving specific consent or general authority to the Rail Regulator empowering him 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.

### **The Rail Regulator**

The Rail Regulator is appointed by the Secretary of State pursuant to the Railways Act for a term not exceeding 5 years.

The Rail Regulator's functions include the granting (with the authority or consent of the Secretary of State and after consultation with the SRA) 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). Enforcement is by means of provisional or final orders issued by the Rail Regulator requiring compliance with one or more licence conditions. A final order may also include provisions for a financial penalty of up to 10 per cent. 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.

The Rail Regulator also approves the terms, including price, on which access to track, stations and light maintenance depots is obtained. The Rail Regulator 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.

The Rail Regulator also enforces prohibitions on anti-competitive agreements and abuse of a dominant position under the Competition Act 1998 (concurrently with the Office of Fair Trading (the "OFT")) in so far as they relate to the supply of railway services. The Rail Regulator is not required to have regard to his duties in exercising his jurisdiction under the Competition Act 1998, but he may have regard to any matter to which those duties refer if it is a matter to which the OFT could have regard when exercising competition functions. The Rail Regulator may, however, have regard to any matter covered by his duties to which the Director General of Fair Trading could have regard, if he were exercising the relevant functions under the Competition Act 1998.

The Rail Regulator also acts as an appeal body in certain types of dispute in relation to industry-wide network codes.

The current Rail Regulator is Tom Winsor, who was appointed on 5 July 1999 and whose term in office will expire in July 2004. In July 2003, Parliament enacted the Railways and Transport Safety Act 2003 which is intended to bring the railways into line with other regulated industries by replacing the individual Rail Regulator with a regulatory board to be called the Office of Rail Regulation. The Office of Rail Regulation is expected to consist of up to 9 members with a chairman and chief executive. The chairman and its other members are appointed by the Secretary of State, and the majority of the board is expected to be non-executive. As announced by the Secretary of State on 8 January 2004, Chris Bolt has been appointed as Chairman of the Office of Rail Regulation as from July 2004, which is the time when the Secretary of State intends to bring the sections of the Railways and Transport Safety Act 2003 concerning the establishment of the Office of Rail Regulation into effect. The duties and functions of the Office of Rail Regulation will be the same as those of the Rail Regulator.

### **Health and Safety Commission**

The Health and Safety Commission is the safety regulator for railways in Great Britain, protecting employees, passengers and the wider public, and whose operational arm is the HSE. 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). 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.

**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 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.

## **USE OF PROCEEDS**

The proceeds from each issue of Notes will be loaned to NRIL and shall be used to provide up to £3 billion of working capital to replace what was initially proposed to be procured through the term loan facility (known as Facility B) made available under the facility agreement entered into between NRIL, Network Rail, Holdco and the SRA on 3 October 2002 and to refinance up to £7 billion of Network Rail's existing £9 billion bank bridge facilities. The working capital and the bank bridge facilities are to be used by NRIL only in relation to the pursuit of its permitted business under its Network Licence.

## 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) 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 such Bearer Notes or on the Certificates relating to such 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.*

All capitalised terms which are not defined in these Conditions shall have the meanings given to them in the 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 MTN 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).

The Notes are constituted by the Trust Deed. 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 deed of charge dated the Programme Establishment Date (the “**Deed of Charge**”) with 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 Deed of Charge) pursuant to which the Issuer assigns by way of security or charges certain fixed and floating security (the “**Security**”) to the Security Trustee for itself and on behalf of the Note Trustee (for itself and on behalf of the Programme Parties (as defined in the Security Trust and Intercreditor Deed (as defined below)) and the Strategic Rail Authority (the “**SRA**” which term shall include, after a transfer of the SRA’s rights and obligations in accordance with Clause 16 (*Assignments and Transfers*) of the SRA Direct Agreement (as defined below), any Substitute MTN Credit Provider (as defined in the SRA Direct Agreement)) together with any additional creditor of the Issuer which accedes to the Deed of Charge (together, the “**Secured Creditors**”).

The Issuer has entered into a security trust and intercreditor deed dated the Programme Establishment Date (the “**Security Trust and Intercreditor Deed**”) with, *inter alios*, the Security Trustee pursuant to which the Security Trustee and the other parties thereto agree to certain intercreditor arrangements.

The Issuer has entered or may enter into certain currency and interest-rate hedging agreements and other derivative transactions (together, the “**Hedging Agreements**”) with certain hedge counterparties (together, the “**Hedge Counterparties**”), pursuant to which the Issuer hedges certain of its currency and interest-rate obligations.



The Issuer has entered into an intercompany loan agreement dated the Programme Establishment Date (the “**Intercompany Loan Agreement**”) with Network Rail Infrastructure Ltd. (“**NRIL**”) under which the Issuer agrees to make available to NRIL the net proceeds from the issuance of the Notes.

The Issuer has entered into a credit support facility agreement dated the Programme Establishment Date (the “**SRA Credit Support Facility Agreement**”) with the SRA under which the SRA provides a committed sterling loan facility (the “**SRA Credit Support Facility**”) to the Issuer.

The Issuer has entered into a direct agreement dated the Programme Establishment Date (the “**SRA Direct Agreement**”) and, together with the SRA Credit Support Facility Agreement, the “**SRA Credit Support Documents**”) with the SRA and the Security Trustee that contains, *inter alia*, a put option which can be exercised by the Security Trustee on behalf of the Programme Parties.

Copies of, *inter alia*, the Trust Deed, the Deed of Charge, the Security Trust and Intercreditor Deed, the SRA Credit Support Documents, the Intercompany Loan Agreement, the Agency Agreement and the Hedging Agreements 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 and Intercreditor Deed 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 8(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 7(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

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 5 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.

### 4 Negative Pledge

- (a) **Restriction:** So long as any of the Notes, Receipts or Coupons remains outstanding and save as provided in Condition 5:

- (i) the Issuer shall not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (“**Security Interest**”) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Debt, or any guarantee of or indemnity in respect of any Relevant Debt;
- (ii) the Issuer shall procure that no other person creates or permits to subsist any Security Interest upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure any of the Issuer’s Relevant Debt, or any guarantee of or indemnity in respect of any of the Issuer’s Relevant Debt; and
- (iii) the Issuer shall procure that no other person gives any guarantee of, or indemnity in respect of, any of the Issuer’s Relevant Debt;

unless, at the same time or prior thereto, the Issuer’s obligations under the Notes, Receipts, Coupons and the Trust Deed (A) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Note Trustee or (B) have the benefit of such other security, guarantee, indemnity or other arrangement as the Note Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined below) of the Noteholders.

- (b) **Relevant Debt:** For the purposes of this Condition, “**Relevant Debt**” means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities that are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

## 5 Security, Priority and Relationship with Secured Creditors

- (a) **Security:** Under the Deed of Charge, the Issuer secures by way of first fixed and/or floating charges the Security Assets (as defined in the Deed of Charge) for the benefit of the Secured Creditors. There is no intention to create further security for the benefit of the holders of Notes issued after the first Series. Each further Series of Notes issued by the Issuer and any additional creditor of the Issuer acceding to the Security Trust and Intercreditor Deed will share in the Security.
- (b) **SRA Direct Agreement and Put Option:** In addition to the Security Assets, the Security Trustee has the right to require the SRA to pay directly to it an option price calculated to include, *inter alia*, outstanding amounts under the Notes and Hedging Agreements.
- (c) **Relationship among Noteholders and with other Secured Creditors:** The Trust Deed contains provisions detailing the Note Trustee’s obligations (i) to consider the interests of the Noteholders as regards all powers, trusts and authorities, duties and discretions of the Note Trustee and (ii) to seek and, upon receipt thereof, act upon the instructions of the Majority Creditors (as defined below). The Security Trust and Intercreditor Deed provides that the Security Trustee will, in certain circumstances, act on instructions of the Note Trustee.
- (d) **Enforceable Security:** In the event of the Security becoming enforceable as provided in the Security Trust and Intercreditor Deed, the Security Trustee shall, if instructed by the Note Trustee (in certain circumstances, acting on the instructions of the Majority 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.

- (e) **Application after enforcement:** After enforcement of the Security, the Security Trustee shall (to the extent that such funds are available) use funds standing to the credit of the Issuer's accounts to make payments in accordance with the priorities of payments set out in the Security Trust and Intercreditor Deed.
- (f) **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 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 created under the Security Documents 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.
- (g) **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 Note.

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 5(g), any amount due under the Notes and not payable or paid when due by the Issuer in accordance with this Condition 5(g) will nevertheless continue to be regarded as being outstanding under the Notes for the purposes of making any demand under, or enforcing any Security Interest created by the Issuer pursuant to the Deed of Charge 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 5(g) shall operate as a permanent waiver of any of those rights or remedies.

For the purpose of these Conditions:

“**Majority Creditors**” means the requisite percentage of Noteholders required in accordance with the provisions of Schedule 3 (*Provisions for Meetings of Noteholders*) to the Trust Deed.

## **6 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 7(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 6 to the Relevant Date (as defined in Condition 7).
- (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 6(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 6(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 11, 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 and/or
- (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 and

“**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 or (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 6(b)(ii).

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

- (1) **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.

## **7 Redemption, Purchase and Options**

### **(a) Redemption by Instalments and Final Redemption:**

- (i) Unless previously redeemed or purchased and cancelled as provided in this Condition 7 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 7(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 7(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 7(c) or 7(e) or upon it becoming due and payable as provided in Condition 11 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- 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 7(c) or 7(e) or upon it becoming due and payable as provided in Condition 11 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 6(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 7(c) or 7(e) or upon it becoming due and payable as provided in Condition 11, 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 60 nor more than 90 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 7(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 9 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 Directors 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 7(c), the Issuer shall be bound to redeem the Notes in accordance with this Condition 7(c).
- (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 60 nor more than 90 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) **Redemption following declaration by the SRA of an event of default under the SRA Credit Support Facility Agreement:** Following receipt by the Note Trustee of written notice from the Security Trustee that the Security Trustee has received written notice from the SRA of the occurrence of an Event of Default (as defined in the SRA Credit Support Facility Agreement) under the SRA Credit Support Facility Agreement, the Notes will be redeemed in whole, but not in part, and on the giving of not less than 45 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 7(b) above) (together with interest accrued to the date fixed for redemption), on the Settlement Date (as defined in the SRA Direct Agreement) or, as applicable, the first Final Term Utilisation Date (as defined in the SRA Credit Support Facility Agreement), such date to be specified in such notice in accordance with this Condition.
- (f) **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.
- (g) **Purchases:** The Issuer 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.
- (h) **Cancellation:** All Notes purchased by or on behalf of the Issuer 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.

## 8 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 8(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 8(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 8(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 8(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’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 10).
- (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 10).
- (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.

## 9 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,

- (i) 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:
  - (a) **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 or
  - (b) **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 or
  - (c) **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 or
  - (d) **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

- (e) **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;
- (ii) 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 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 7 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 6 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.

## 10 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.

## 11 Events of Default

If any of the following events in paragraphs (a) to (f) below (each such an event, an “**Event of Default**”) occurs, and subject to the Security Trust and Intercreditor Deed:

- (i) (x) if it is of the nature described in paragraphs (i) to (iv) of the definition of SRA Event of Default below, the Note Trustee at its discretion may, and if so requested in writing by the Majority Creditors, shall; or (y) if it is of the nature described in paragraph (v) of the definition of SRA Event of Default below, the Note Trustee, but only if so requested in writing by the Majority Creditors, 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 Event of Default of the nature described in any of paragraphs (b) to (f) (inclusive) below is also continuing or not) the Notes shall immediately become, due and payable at their Early Redemption Amount together with accrued interest; or
- (ii) (unless an SRA Event of Default (as defined below) has occurred and is continuing) if it is of the nature described in paragraphs (b) to (f) below (each such event, a “**Programme Termination Event**”), the Note Trustee at its discretion may, and if so requested in writing by the Majority Creditors, shall (subject to being indemnified and/or secured to its satisfaction) give notice to the

Issuer that a Programme Termination Event has been declared and if a PTE Acceleration Notice (as defined in the SRA Direct Agreement) is subsequently delivered by the SRA in accordance with and subject to the terms of the SRA Direct Agreement, the Note Trustee shall (subject to being indemnified and/or secured to its satisfaction), upon delivery of either a Final Term Request (as defined in the SRA Credit Support Facility Agreement), a Put Option Exercise Notice (as defined in the SRA Direct Agreement) or a Call Option Exercise Notice (as defined in the SRA Direct Agreement), give notice to the Issuer in writing that the Notes are, and the Notes shall, on the Settlement Date (as defined in the SRA Direct Agreement) or, as applicable, the first Final Term Utilisation Date (as defined in the SRA Credit Support Facility Agreement), become due and payable at their Early Redemption Amount together with accrued interest:

(a) **SRA Event of Default**

an SRA Event of Default (as defined below) occurs;

(b) **Non-Payment**

there is a failure to pay any amount of principal or interest on any Note on the due date for payment thereof and such failure continues for a period of 14 days;

(c) **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 MTNSF Finance Document (as defined in the Security Trust and Intercreditor Deed) 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;

(d) **Insolvency**

other than for the purposes of an amalgamation or reconstruction as is referred to in paragraph (e) 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”;

(e) **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; or

(f) **Insolvency Proceedings and Enforcement Proceedings**

(i) 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, or (ii) 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 any part of its undertaking, property or assets, or (iii) an encumbrancer takes possession of all or any part of the undertaking, property or assets of the Issuer, or (iv) a distress, execution, diligence or other process is levied or enforced upon or sued against all or any part 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 (ii) 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 (v) 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 (e) above) or makes a conveyance or assignment for the benefit of its creditors generally.

### **Definitions**

For the purposes of these Conditions:

“**SRA Event of Default**” means in respect of the SRA:

- (i) **Non-payment by SRA:** Any breach occurs by the SRA of any of its payment obligations under the SRA Direct Agreement; or
- (ii) **SRA Insolvency:** Any of the following occurs:
  - (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 the Department for Transport, non payment of which would not have a material adverse effect upon the SRA’s performance of its payment or other material obligations under any of the SRA Credit Support Documents, or (II) debts of the SRA 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 SRA:** Any of the following occurs in respect of the SRA:
  - (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 SRA’s rights and obligations in accordance with Clause 16 (*Assignments and Transfers*) of the SRA Direct Agreement;

- (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;
- (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;
- (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 (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 SRA Credit Support Facility Agreement or the SRA Direct Agreement is illegal or invalid or is alleged by the SRA to be illegal or invalid for any reason;
- (b) the SRA expressly repudiates or cancels the SRA Credit Support Facility Agreement or the SRA Direct Agreement or expressly states an intention to repudiate or cancel either of them (in each case other than in accordance with their respective terms);

(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 SRA's payment or other material obligations under the SRA Credit Support Facility Agreement or the SRA Direct Agreement and the Secretary of State does not, within 14 days of such statement withdraw the statement.

For the purposes of paragraph (v) above:

“**Comfort Letter**” means the letter addressed to the Programme Parties and the SRA from the Secretary of State in connection with the Issuer's £10,000,000,000 medium term note programme; and

“**Secretary of State**” means the Secretary of State for Transport.

## 12 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 per cent. 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 SRA Credit Support Documents 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 per cent., or at any adjourned meeting not less than 25 per cent., 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 per cent. 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 SRA Credit Support Documents are 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.

### **13 Enforcement**

At any time after the Notes become due and payable, the Note Trustee may, subject to the terms of the Security Trust and Intercreditor 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.

### **14 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.

### **15 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.

### **16 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.

## **17 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.

## **18 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.

## **19 Governing Law and Jurisdiction**

- (a) **Governing Law:** The Trust Deed, the Deed of Charge, the Security Trust and Intercreditor 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 (“**Proceedings**”) may be brought in such courts.

## **SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM**

### **Initial Issue of Notes**

Upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, in the case of a Series intended to be cleared through Euroclear and/or Clearstream, Luxembourg, 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. Series intended to be delivered outside a clearing system shall be delivered as agreed between the Issuer and the relevant Dealer.

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 the underlying Registered Notes, 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 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 under “*Partial Exchange of Permanent Global Notes and Global Certificates*”, in part for Definitive Notes or, in the case of (iii) below, Registered Notes:

- (i) unless principal in respect of any Notes is not paid when due, 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.

### **Permanent Global Certificates**

If the Pricing Supplement states that the Notes are to be represented by a permanent 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 be exchangeable in part on one or more occasions (1) 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 (2) for Definitive Notes, if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly-Paid Notes.

**Delivery of Notes**

On or after any due date for exchange 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. In exchange for any Global Note 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 Global Certificate exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal 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 Global Note, the definitive Bearer Notes for which such 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 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, or in the case of failure to pay principal in respect of any Notes when due 30 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 temporary Global Notes, permanent 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 Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes 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 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 Global Note to or to the order of the Issuing and 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 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 5 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 Specified 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 nominal amount of the relevant permanent Global Note.

**Purchase**

Notes represented by a permanent Global Note may only be purchased 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 certificate 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 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. While any instalments of the subscription moneys due from the holder of Partly-Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes, (as the case may

be). If any Noteholder fails to pay any instalment due on any Partly-Paid Notes within the time specified, the Issuer may 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 MTN FINANCE PLC

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the **£10,000,000,000 Medium Term 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 MTN 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:	[•] per cent. 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:	[[●] per cent. Fixed Rate] [[specify reference rate] +/- [●] per cent. 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	Change of Interest or Redemption/Payment Basis:	[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]
12	Call Option:	Issuer Call [(further particulars specified below)]
13	Status of the Notes:	The Notes will rank <i>pari passu</i> and without any preference among themselves
14	Listing:	[Official List of the UK Listing Authority and trading on the London Stock Exchange/None]
15	Method of distribution:	[Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16	<b>Fixed Rate Note Provisions</b>	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Rate(s) of Interest:	[●] per cent. 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 6(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 6(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*]

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**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 6(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 6(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 6(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 cent. per annum
- (xi) Minimum Rate of Interest: [•] per cent. per annum
- (xii) Maximum Rate of Interest: [•] per cent. per annum
- (xiii) Day Count Fraction (Condition 6(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:

18	<b>Zero Coupon Note Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Amortisation Yield (Condition 7(b)):	[•] per cent. per annum
	(ii) Day Count Fraction (Condition 6(k)):	[•]
	(iii) Any other formula/basis of determining amount payable:	[•]
19	<b>Index Linked Interest Note Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(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 <i>(give details)</i> ]
	(vii) Business Centre(s) (Condition 6(k)):	[•]
	(viii) Minimum Rate of Interest:	[•] per cent. per annum
	(ix) Maximum Rate of Interest:	[•] per cent. per annum
	(x) Day Count Fraction (Condition 6(k)):	[•]
20	<b>Dual Currency Note Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(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 6(k)): [•]

#### PROVISIONS RELATING TO REDEMPTION

- 21 **Call Option** [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
  - (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): [•]
- 22 **Final Redemption Amount of each Note** [[•] per Note of [•] specified denomination/Other/See Appendix]
- 23 **Early Redemption Amount**
  - (i) Early Redemption Amount(s) of each Note payable on:
    - (a) redemption for taxation reasons (Condition 7(c)); [•]
    - (b) an Event of Default (Condition 11(i)); [•]
    - (c) an Event of Default (Condition 11(ii)); [•]
    - (d) an event of default under the SRA Credit Support Facility Agreement (Condition 7(e)), 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 7(c)): [Yes/No]
  - (iii) Unmatured Coupons to become void upon early redemption (Bearer Notes only) (Condition [•]): [Yes/No/Not Applicable]

8(f):

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

24	Form of Notes:	[Bearer Notes/Exchangeable Bearer Notes/Registered Notes]
	(i) Temporary or permanent global Note/Certificate or DTC Global Note:	[temporary Global Note/Certificate exchangeable for a permanent Global Note/Certificate which is exchangeable for Definitive Notes/Certificates on [•] days' notice/at any time/in the limited circumstances specified in the permanent Global Note/Certificate] [temporary Global Note/Certificate exchangeable for Definitive Notes/Certificates on [•] days' notice] [permanent Global Note/Certificate exchangeable for Definitive Notes/Certificates on [•] days' notice/at any time/in the limited circumstances specified in the permanent Global Note/Certificate] [DTC Global Note exchangeable for Certificates in the limited circumstances specified in the DTC Global Note]
	(ii) Applicable TEFRA exemption:	[C Rules/D Rules/Not Applicable]
25	Financial Centre(s) (Condition 8(h)) or other special provisions relating to payment dates:	[Not Applicable/Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(iv) and 19(vii) relate]]
26	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, give details]
27	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/give details]
28	Details relating to Instalment Notes:	[Not Applicable/give details]
	(i) Instalment Amount(s):	[•]
	(ii) Instalment Date(s):	[•]
	(iii) Minimum Instalment Amount:	[•]
	(iv) Maximum Instalment Amount:	[•]

- 29 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition [•]] [annexed to this Pricing Supplement] apply]
- 30 Consolidation provisions: [Not Applicable/The provisions [in Condition [•]] [annexed to this Pricing Supplement] apply]
- 31 Other terms or special conditions<sup>1</sup>: [Not Applicable/give details]

#### **DISTRIBUTION**

- 32 (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager (if any): [Not Applicable/give name]
- (iii) Dealer's Commission: [•]
- 33 If non-syndicated, name of Dealer: [Not Applicable/give name]
- 34 Additional selling restrictions: [*Specify whether the Notes are Rule 144A eligible*] [Not Applicable/give details]

#### **OPERATIONAL INFORMATION**

- 35 ISIN Code: [•]
- 36 Common Code: [•]
- 37 Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- 38 Delivery: Delivery [against/free of] payment
- 39 The Agents appointed in respect of the Notes are: [•]

#### **GENERAL**

- 40 Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 12(a): [Not Applicable/give details]
- 41 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][•]]

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<sup>1</sup> 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.

**[LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the £10,000,000,000 Medium Term Note Programme of Network Rail MTN 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.]

Signed on behalf of the Issuer:

By: \_\_\_\_\_  
Duly authorised

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 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.

### **1 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 United Kingdom 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 the option contained in the SRA Direct Agreement is exercised 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 and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

### **2 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 a date not earlier than 1 January 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 including the United States 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 relevant dealer confirmation or subscription agreement, as the case may be.

The Issuer and NRIL have 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 U.S. Internal Revenue 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 which such Notes are a part, as determined and certified to the Trustee by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Trustee shall notify such Dealer when all such Dealers have so certified) (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 (other than resales pursuant to Rule 144A under the Securities Act (“**Rule 144A**”) 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.

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.

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 and for the resale of the Notes in 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, other than any QIB to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate in accordance with Rule 144A. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB 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 any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, 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 Financial Services and Markets Act 2000 (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. 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 with respect to the admission to listing on the Official List and to trading by the London Stock Exchange, 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, to the best of its knowledge, 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

- 1 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 Notes (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 2 March 2004.
- 2 Each of the Issuer, NRIL 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 13 February 2004 and the entry into the agreements to which each of NRIL and the SRA is party was authorised by a duly authorised committee of the board in respect of NRIL on 18 February 2004 and by the board of the SRA and a committee of the board of the SRA on 5 February 2004 and 19 February 2004 respectively.
- 3 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 12 August 2003 and, in the case of the SRA (excluding the Network Rail group), since 31 March 2003, being the end of its last financial period.
- 4 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 Network Rail group) financial position nor is either of the Issuer and the SRA aware that any such proceedings are pending or threatened.
- 5 Each Bearer Note (including an Exchangeable Bearer Note), Receipt, Coupon and Talon 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".
- 6 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.
- 7 Prior to the maturity of the Notes, the United Kingdom may become a participating member state in the Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. Adoption of the euro by the United Kingdom may have the following consequences: (i) all amounts payable in respect of sterling denominated Notes may become payable in euro; (ii) the introduction of the euro as the lawful currency of the United Kingdom may result 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 (iii) the Issuer may choose to redenominate the sterling denominated Notes into euro and take additional measures in respect of the 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.

- 8 For so long as Notes may be issued pursuant to this Offering Circular (in respect of 8.1 to 8.20) and for so long as any listed Notes remain outstanding, from the date of the relevant document (in respect of 8.19), 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:
- 8.1 the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);
  - 8.2 the Dealer Agreement;
  - 8.3 the Agency Agreement;
  - 8.4 the Deed of Charge;
  - 8.5 the Security Trust and Intercreditor Deed;
  - 8.6 the SRA Credit Support Facility Agreement;
  - 8.7 the SRA Direct Agreement;
  - 8.8 the Intercompany Loan Agreement;
  - 8.9 the Administration Agreement;
  - 8.10 prior to the signing of the Comfort Letter (expected to be on or about 5 March 2004), the form of the Comfort Letter from the Secretary of State minuted in Parliament on 4 February 2004 and, thereafter the signed Comfort Letter;
  - 8.11 the Memorandum and Articles of Association of each of the Issuer and NRIL;
  - 8.12 the ISDA Master Agreements (including the schedules and credit support annexes thereto) comprising Hedging Agreements;
  - 8.13 the Directions from the Secretary of State to the SRA dated 19 February 2004;
  - 8.14 the SRA's audited consolidated financial statements for the years ended 31 March 2002 and 31 March 2003;
  - 8.15 the Accountant's Report on the Issuer dated 26 February 2004 and any subsequent accounts of the Issuer;
  - 8.16 the Certificate of the Comptroller and Auditor General to the Houses of Parliament and the Strategic Rail Authority;
  - 8.17 the Report of the Comptroller and Auditor General – Strategic Rail Authority 2002-03;
  - 8.18 the Transport Act 2000;
  - 8.19 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 Financial Services and Markets Act 2000; and
  - 8.20 each Pricing Supplement and each subscription agreement (if any) for Notes which are listed on the Official List and admitted to trading on the London Stock Exchange's market for listed securities.
- 9 The Issuer has not published any financial statements as at the date of this Offering Circular.

- 10 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 2003 and 31 March 2002.
- 11 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.
- 12 The National Audit Office has given and has not withdrawn its written consent to the inclusion in the Offering Circular of its certificate to the Houses of Parliament and the SRA and its report in the form and context in which they are 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.
- 13 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 4 February 2004. The annex referred to in the Comfort Letter has not been attached. The annex to the signed Comfort Letter will set out the names of the Arranger and the Dealers. It is expected that the Comfort Letter will be signed for and on behalf of the Secretary of State on or about 5 March 2004.*

## Draft Comfort Letter

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

To: The Strategic Rail Authority (the **SRA**) and the persons (including their respective successors and assigns) listed in the Annex to this letter as dealers under and arrangers of the MTN Programme (as defined below), any holders of Notes (as defined below) issued by the MTN Issuer (as defined below), any parties to an ISDA master agreement with the MTN Issuer, the note trustee relating to the Notes, and the security trustee holding security over the assets of the MTN Issuer (**Security Trustee**) (together the **MTN Lenders**).

[date]

### MEDIUM TERM NOTE PROGRAMME - SUPPORT FACILITY

1. The Secretary of State is aware that Network Rail MTN Finance Plc (the **MTN Issuer**) has entered or is shortly to enter into documentation with the MTN Lenders for a multicurrency medium term note programme (the **MTN Programme**) up to an aggregate principal amount of £10.00 billion (or equivalent in other currencies) for the issue of medium term notes (the **Notes**) and with associated interest and currency hedging under ISDA master agreements (the **Hedging Documents** and, together with the MTN Programme, the **Programme Documents**). The MTN Programme is intended to fund (i) up to £3 billion of working capital (replacing an undrawn £3 billion support facility previously provided by the SRA) and (ii) up to £7 billion is intended to be available to refinance or replace certain existing financings (currently supported by SRA) of Network Rail Limited's group depending on the likely timing of the refinancing of those amounts from a proposed long-term financing being developed by Network Rail Limited. It is intended that the Programme Documents should be discharged on or before 31 March 2009.
2. The SRA has agreed to make a standby loan facility available to the MTN Issuer in support of its indebtedness under the Programme Documents (the **SRA Facility**). The SRA Facility would be available to enable the MTN Issuer to discharge indebtedness under the Programme Documents if required in accordance with its terms. In addition, in the circumstances set out in the related SRA Direct Agreement between the SRA, the MTN Issuer and the Security Trustee (the **SRA Direct Agreement**), the Security Trustee will be entitled to require the SRA to pay direct to the Security Trustee amounts owed by the MTN Issuer under the Programme Documents (calculated as set out in the SRA Direct Agreement and capped at the maximum amount available for drawing under the term loan facility of the SRA Facility at the relevant time) in return for which the SRA benefits from an indemnity from the MTN Issuer (the **Put Option**). Further, the SRA Direct Agreement will also contain a corresponding call right for the SRA (the **Call Option**). The Secretary of State approved the terms of the SRA Facility, the Put Option and the Call Option on [ 2004].
3. 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 SRA Facility, the Put Option and the Call Option.
4. The SRA is a corporate body, incorporated under Part IV of the Transport Act 2000 (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.

5. 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 which 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.
6. The SRA provides strategic direction for Britain's railways. It sets priorities for the successful operation and development of the railway. It works with other industry parties to secure continuing private investment in the railway, and to deploy public funding to best effect. On 14th January, 2002 the SRA published its Strategic Plan, setting out the strategic priorities for Britain's railways over the next 10 years. The SRA is tasked with delivery of the Plan, and in particular of the Government's key targets of 50 per cent. growth in passenger kilometres, 80 per cent. growth in freight moved and a reduction in overcrowding in London area rail services. It has been required by the Secretary of State for Transport to publish a revised and updated version of the Strategic Plan each year. Accordingly on 30th January, 2003 the SRA published its second Strategic Plan. This reaffirms that the SRA's goals remain those set out above, together with the additional objective, set by the Secretary of State during 2002, that it should work with the rail industry to achieve substantial lasting improvements in punctuality and reliability of train services. A third Strategic Plan will be published later in 2004.
7. 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.
8. 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 functions<sup>1</sup>; 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.
9. 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 [ ] and objections raised by Members within 14 days of them being so minuted were properly answered.
10. 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.

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<sup>1</sup> 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.

11. The Secretary of State also recognises that the SRA needs to be satisfied that its obligations under the SRA Facility, the Put Option and the Call Option 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 SRA Facility and/or the Put Option and/or the Call Option and that the SRA, or any body to which the SRA's liabilities are transferred in accordance with any relevant legislation permitting such a transfer, is in a position to meet its liabilities under the SRA Facility and/or the Put Option and/or the Call Option 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 SRA Facility and/or the Put Option and/or the Call Option, he would stand by and do nothing.
12. 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 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. 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.*



From the Minister of State

Richard Bowker Esq  
Chairman  
Strategic Rail Authority  
55 Victoria Street  
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19 FEB 2004

*Dear Richard*

**NETWORK RAIL INTERIM FUNDING – MEDIUM TERM NOTE (“MTN”) PROGRAMME**

In the Secretary of State's letters of 21 June 2002 and 25 June 2003, he 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 an MTN programme is proposed to provide the Network Rail group with working capital and to refinance existing short term facilities until Network Rail's long term debt issuance programme is launched and established. The SRA has been requested to provide certain support for the MTN programme, 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 Network Rail MTN programme and facilities to which the SRA is a party, the SRA is to enter into the following agreements:

- (1) The MTN Support Facility between (1) the SRA and (2) Network Rail MTN Finance PLC.
- (2) The SRA Direct Agreement between (1) the SRA, (2) Network Rail MTN Finance PLC, (3) HSBC Trustee (C.I.) Limited and (4) HSBC Bank PLC.
- (3) Side Agreement between (1) the SRA, (2) Network Rail MTN Finance PLC, (3) Network Rail Infrastructure Limited, (4) Network Rail HoldCo Limited and (5) Network Rail Limited.
- (4) Letter from the SRA addressed to Merrill Lynch International and the dealers from time to time under the MTN Programme.

**KIM HOWELLS**

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## **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 2003.*

*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 SRA Credit Support Documents, 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 1 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, to the ability of the SRA to meet its obligations under the SRA Credit Support Documents and to 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.*

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

I have audited the financial statements on pages 78 to 133<sup>1</sup> 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 83 to 88<sup>1</sup>.

### **Respective responsibilities of the Authority, the Chief Executive and Auditor**

As described on page 67<sup>1</sup>, 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 for ensuring the regularity of financial transactions. The Authority and Chief Executive are also responsible for the preparation of the Foreword<sup>2</sup>. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 directions made thereunder, and whether in all material respects the expenditure and income has 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 Foreword<sup>2</sup> 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 70 to 72<sup>1</sup> reflects the Authority's compliance with Treasury's guidance 'Corporate governance: statement 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.

The maintenance and integrity of the Authority's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

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<sup>1</sup> Page references in this Certificate are references to the pages of the SRA's audited consolidated financial statements for the year ended 31 March 2003 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**").

<sup>2</sup> 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 2003 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**").

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 2003 and of the deficit, 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.

See also my Report<sup>3</sup> at pages 75 to 77<sup>1</sup>.

John Bourn  
Comptroller and Auditor General

14 July 2003

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

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<sup>3</sup> References to “Report” in this Certificate are references to the Report contained in the SRA’s audited consolidated financial statements for the year ended 31 March 2003 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**”) and in the form set out on pages 116 to 119 of this Offering Circular.

# **REPORT OF THE COMPTROLLER AND AUDITOR GENERAL**

## **STRATEGIC RAIL AUTHORITY: 2002-03**

### **Introduction**

- 1 The Strategic Rail Authority (“**the Authority**”) is a non-departmental public body created by the Transport Act 2000. The overall aim of the Authority is to provide leadership to the rail industry and ensure that the industry works co-operatively towards common goals.

### **Network Rail**

- 2 On 3 October 2002 Network Rail Limited, which is a company without shareholders, limited by guarantee, acquired the shares of Railtrack Plc from Railtrack Group Plc for £510 million, including acquisition expenses. Network Rail Limited (Network Rail) financed the purchase by a grant of £300 million from the Authority and a commercial loan of £210 million.
- 3 Note 1 to the accounts of the Authority explains the relationship between Network Rail and the Strategic Rail Authority as set out in agreements entered into by both parties on 3 October 2002. As I announced on 28 June 2002, in my opinion, the Government, via the Strategic Rail Authority is, through the support facilities in place, providing security to the providers of debt finance to Network Rail and is acting as the lender of last resort in the event of financial difficulties. In doing so the Government, via the Strategic Rail Authority is the party bearing the risk that would usually be borne by equity capital.
- 4 Applying Financial Reporting Standard 5: “Reporting the Substance of Transactions”, I therefore concluded that Network Rail should be accounted for as a subsidiary of the Strategic Rail Authority and the Government agreed with this view in the Secretary of State for Transport’s responses to Parliamentary questions on 2 and 19 July 2002. Accordingly, the results and transactions of Network Rail, including its assets, liabilities and borrowings, have been consolidated into the Authority’s group accounts for 2002-03. The consolidated income and expenditure account is on page 78<sup>1</sup> and the consolidated balance sheet on page 81<sup>1</sup>.

### **Accounting for the railway network**

*Network assets are valued at £12,764 million*

- 5 The consolidated balance sheet of the Authority includes the railway infrastructure assets owned by Network Rail. These network assets of £12,764 million, including track, route structures, stations and depots, constituted more than 97 per cent by value of the total fixed assets recognised in the Authority’s group balance sheet at 31 March 2003.

*The assets have been valued at the Regulatory Asset Base, reflecting their value in use*

- 6 As part of my audit of the Authority’s accounts, I have considered the accounts and accounting policies of Network Rail, including the basis of accounting for the rail network. These assets have been included in the balance sheet of Network Rail and the consolidated balance sheet at their value in use. This is derived from the value assigned to all of its assets by Network Rail under regulatory accounting guidelines issued by the Rail Regulator, which is called the Regulatory Asset Base. The Regulatory Asset Base determines the level of future income streams which Network Rail will receive from train operating companies as charges for gaining

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<sup>1</sup> Page references in this Report are references to the pages of the SRA’s audited consolidated financial statements for the year ended 31 March 2003 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**”).

access to the rail network, and is consequently an appropriate basis for calculating the current value of the asset base. Additionally the value of £12,764 million includes certain assets which are not part of the Regulatory Asset Base.

- 7 The Regulatory Asset Base is increased by the value of agreed enhancements to the network and other adjustments specified by the Regulator. A key assumption in Network Rail's accounts is that, over time, the value of the Regulatory Asset Base will be sufficient to generate enough income to ensure that Network Rail can achieve an operating surplus. The validity of this assumption will only be confirmed once the Regulator has published his final conclusions in his interim review of Network Rail's access charges, which is expected by 31 December 2003.

*The value in use is less than the replacement cost*

- 8 Network Rail's value of its railways network assets of £12.764 billion is less than the cost of replacing the rail network in its current condition, estimated by Network Rail's engineers to be greater than £70 billion.

*The value in use differs from the value used by Network Rail's predecessor, Railtrack Plc*

- 9 Network Rail's basis of accounting for its rail network assets differs from that used by Railtrack Plc. Railtrack Plc valued the network assets at the original or historic cost of constructing the network. Railtrack Plc did not, however, charge depreciation each year to the profit and loss account to reflect the usage of these assets, but instead adopted an accounting practice known as renewals accounting for track, route structures, stations and depots. This practice allows organisations maintaining an infrastructure system or network in a steady state, to charge to their profit and loss account the annual cost of maintaining that asset as a proxy for depreciation. Over time, surveys of the condition of the asset should indicate whether it is being maintained in a steady state. If it is not, the use of renewals accounting may not be permissible.

*Network Rail's directors believe the revised basis of valuation is more appropriate for a number of reasons*

- 10 As noted in paragraph 6 above, Network Rail's Directors believe that the historic cost basis adopted previously by Railtrack Plc does not reflect the true economic value of the network, as does its value in use. Further, UK accounting standards are due to be harmonised with international accounting standards by 2005, and the renewals accounting practice adopted by Railtrack Plc will no longer be permitted under international accounting standards. In its 2002-03 accounts therefore, Network Rail Infrastructure Limited, renamed from Railtrack Plc, has charged depreciation of £438 million, compared to £1,889 million which would have arisen had Railtrack Plc's policy been adopted.

*Under the new accounting policy, Network Rail Infrastructure Limited's results for 2002-03 show a pre-tax loss of £290 million. The change in basis of accounting has led to the 2001-02 results of Railtrack Plc being restated, changing the previously reported loss of £1,638 million into a surplus of £295 million*

- 11 As a result of the new accounting policy, the accounts of Network Rail Infrastructure Limited restate the results of Railtrack Plc for last year to show a pre-tax profit for 2001-02 of £295 million, as opposed to the loss reported by Railtrack Plc of £1,343 million, a difference of £1,638 million. The change in accounting policy had no impact on Railtrack Plc's cash and bank balances and other liabilities at 31 March 2002. Net liabilities falling due within one year at that date were £3,964 million, with a further £3,597 million falling due after more than one year, as reported in the audited accounts.
- 12 The change in accounting policy has no impact on the reported results of the Strategic Rail Authority for 2001-02 as Railtrack Plc was not part of the Strategic Rail Authority Group and not therefore covered by my audit.

*Network Rail has also revalued the infrastructure assets because the Regulator has indicated that the value of the Regulatory Asset Base will be increased*

- 13 The Directors of Network Rail have also revalued the network during 2002-03 by £935 million because the Regulator has indicated in his statement of 27 June 2002 that he will increase the Regulatory Asset Base by an amount greater than the level of actual additions to the network, reflecting the additional expenditure on operating, renewing and maintaining the network in the two years to 31 March 2003. Without this increase in the value of the Regulatory Asset Base, Network Rail would have needed to write down the carrying value of the network in its accounts, resulting in an additional impairment charge to its profit and loss account.

*The auditors of Network Rail, Deloitte & Touche, are content with the accounting policies adopted by Network Rail*

- 14 Deloitte & Touche, auditors of Railtrack Plc (now Network Rail Infrastructure Limited) and of Network Rail Limited, issued an unqualified audit opinion on the consolidated accounts of Network Rail Limited on 4 June 2003. This implies that they are content with the Directors of Network Rail's decision to change the fixed asset accounting policy previously adopted by Railtrack Plc.

*I am satisfied with the accounting policies adopted by Network Rail in so far as they impact on the accounts of the Strategic Rail Authority for 2002-03*

- 15 In auditing the Strategic Rail Authority's consolidated accounts, I have reviewed the accounting policies adopted by Network Rail. I am satisfied that the approach adopted by the Directors of Network Rail to value the railway infrastructure assets is acceptable under financial reporting standards, it is also consistent with the accounting policies of the Strategic Rail Authority including in particular the Authority's requirement to prepare accounts in line with the Accounts Direction issued by the Secretary of State for Transport, including the requirement for the accounts to comply with "Executive Non-Departmental Public Bodies: Annual Reports and Accounts Guidance" issued by HM Treasury. The policy will also be consistent with International Accounting Standards when these are planned to be adopted by UK companies in 2005, whereas the renewals accounting method employed by Railtrack Plc will no longer be permitted.

### **Going concern basis for preparation of the financial statements**

- 16 The balance sheet at 31 March 2003 discloses an excess of liabilities over assets of £659 million for the group and £1,580 million for the Authority. The Authority's balance sheet includes liabilities for grant and other payments which will be met from future grants or grant-in-aid recoverable from the Authority's sponsor department, the Department for Transport.
- 17 In line with its Accounts Direction, the Authority recognises liabilities on an accruals basis. However, under the normal conventions applying to Parliamentary control over income and expenditure, the Authority's grant-in-aid cannot be issued or accounted for in advance of need and will be made available once liabilities fall due for payment.
- 18 In preparing its Supply Estimates for 2003-04, the Department for Transport has taken into account the amounts needed to meet liabilities of the Authority payable in the year. These Estimates have been approved by Parliament and the Authority received funding of £1,575 million during April 2003 to allow it to meet liabilities existing at 31 March 2003.
- 19 As disclosed in the Foreword to these accounts, the Authority's Directors have assessed that there is no reason to believe that the Department for Transport's future sponsorship of the Authority and future Parliamentary approval of funding to allow the Authority to meet its liabilities will not be forthcoming. Accordingly, the

financial statements have been prepared on a going concern basis. I have reviewed the basis for this judgement and have concluded that it is appropriate.

John Bourn  
Comptroller & Auditor General

14 July 2003

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



## Group Income and Expenditure Account for the year ended 31 March 2003

	Note	Continuing business <sup>1</sup> (£m)	Acquisitions <sup>2</sup> (£m)	Total 2003 (£m)	Total 2002 Restated <sup>3</sup> (£m)
<b>Income</b>					
Trading income.....	3(a)	204.4	942.4	1,146.8	212.4
Government Grant (including share of joint venture).....	3(b)	1,886.9	—	1,886.9	1,687.3
Less: share in joint venture (Government Grant).....	3(b)	(12.7)	—	(12.7)	(2.8)
	4	2,078.6	942.4	3,021.0	1,896.9
<b>Operating expenditure</b> .....	5	(2,306.3)	(1,147.1)	(3,453.4)	(2,357.0)
<b>Group Deficit</b> .....	4, 6	(227.7)	(204.7)	(432.4)	(460.1)
Surplus on disposal of fixed assets/non- operational property .....		10.9	25.0	35.9	6.7
Notional cost of capital.....		54.4	(11.6)	42.8	36.3
<b>Deficit on ordinary activities before interest</b>		(162.4)	(191.3)	(353.7)	(417.1)
Net Interest .....	7	(25.0)	(164.7)	(189.7)	(29.2)
<b>Deficit on ordinary activities before taxation</b> .....		(187.4)	(356.0)	(543.4)	(446.3)
Taxation.....	8	—	41.3	41.3	—
<b>Deficit on ordinary activities after taxation</b>		(187.4)	(314.7)	(502.1)	(446.3)
Less notional cost of capital.....		(54.4)	11.6	(42.8)	(36.3)
<b>Result for the year</b> .....	2, 25, 26	(241.8)	(303.1)	(544.9)	(482.6)

## Statement of Total Recognised Gains and Losses

	Note	Continuing business (£m)	Acquisitions (£m)	Total 2003 (£m)	Total 2002 Restated (£m)
Result for the year.....		(241.8)	(303.1)	(544.9)	(482.6)
Unrealised surplus on revaluation of properties.....		16.0	—	16.0	37.2
Revaluation of network fixed assets (see note 11).....		—	698.2	698.2	—
Total (loss)/surplus recognised relating to the year.....		(225.8)	395.1	169.3	(445.4)
<b>Prior Year Adjustment</b> .....	28	(481.4)	—	(481.4)	—
Total (loss)/surplus recognised since last annual report.....		(707.2)	395.1	(312.1)	(445.4)

No operations have been classified as discontinued during the year.

<sup>1</sup> The continuing business relates to the Authority after consolidation adjustments.

<sup>2</sup> The acquisition relates to Network Rail Ltd after consolidation adjustments (see note 1 and note 13 (b)).

<sup>3</sup> Restatement relates to revised presentation of income and expenditure, and the prior year adjustment (see note 28).

**Authority Income and Expenditure Account for the year ended 31 March 2003**

	Note	Total 2003	Total 2002 Restated
		(£m)	(£m)
<b>Income</b>			
Trading income.....	3(a)	226.5	212.4
Government Grant (including share of joint venture).....	3(b)	1,886.9	1,687.3
Less: share in joint venture (Government Grant).....	3(b)	(12.7)	(2.8)
	4	2,100.7	1,896.9
<b>Operating Expenditure</b> .....	5	(2,854.7)	(2,357.0)
<b>Authority deficit</b> .....	4, 6	(754.0)	(460.1)
Surplus on disposal of fixed assets/non-operational property .....		10.9	6.7
Notional cost of capital.....		73.8	36.3
<b>Deficit on ordinary activities before interest</b> .....		(669.3)	(417.1)
Net Interest .....	7	(25.0)	(29.2)
<b>Deficit on ordinary activities before taxation</b> .....		(694.3)	(446.3)
Taxation.....	8	—	—
<b>Deficit on ordinary activities after taxation</b> .....		(694.3)	(446.3)
Less notional cost of capital.....		(73.8)	(36.3)
<b>Result for the year</b> .....	2, 25, 26	(768.1)	(482.6)

**Statement of Total Recognised Gains and Losses**

	Note	Total 2003	Total 2002 Restated
		(£m)	(£m)
Result for the year.....		(768.1)	(482.6)
Unrealised surplus on revaluation of properties.....		16.0	37.2
<b>Total loss recognised relating to the year</b> .....		(752.1)	(445.4)
Prior Year Adjustment.....	28	(481.4)	—
Total loss recognised since last annual report.....		(1,233.5)	(445.4)

## Statement of Historical Cost Surplus and Deficits for the year ended 31 March 2003

### Group

	<b>Total 2003</b>	<b>Total 2002 Restated</b>
	<u>(£m)</u>	<u>(£m)</u>
Reported deficit on ordinary activities before taxation .....	(549.3)	(446.3)
Realisation of property revaluation gains of previous years .....	19.5	11.4
Additional depreciation on historical cost basis.....	(726.0)	—
Historical cost deficit on ordinary activities before taxation.....	<u>(1,255.8)</u>	<u>(434.9)</u>
Historical cost deficit for the year after taxation and cost of capital .....	<u>(1,251.4)</u>	<u>(471.2)</u>

### Authority

	<b>Total 2003</b>	<b>Total 2002 Restated</b>
	<u>(£m)</u>	<u>(£m)</u>
Reported deficit on ordinary activities before taxation .....	(731.2)	(446.3)
Realisation of property revaluation gains of previous years .....	19.5	11.4
Historical cost deficit on ordinary activities before taxation.....	<u>(711.7)</u>	<u>—</u>
Historical cost deficit for the year after taxation and cost of capital .....	<u>(748.6)</u>	<u>(471.2)</u>

## Balance Sheet as at 31 March 2003

	Note	Group		Authority	
		2003	Restated 2002	2003	Restated 2002
		(£m)	(£m)	(£m)	(£m)
<b>Fixed assets</b>					
Tangible Assets:					
Buildings.....	11	28.6	28.1	28.6	28.1
Plant and equipment.....	11	3.2	7.5	3.2	7.5
IT equipment.....	11	7.6	1.7	7.6	1.7
Network Assets.....	11	12,763.7	—	—	—
Investment Property.....	17	138.3	80.4	67.6	80.4
		<u>12,941.4</u>	<u>117.7</u>	<u>107.0</u>	<u>117.7</u>
Intangible Assets:					
Concessions.....	12(a)	25.6	—	—	—
Goodwill.....	12(b)	105.4	—	—	—
		<u>13,072.4</u>	<u>117.7</u>	<u>107.0</u>	<u>117.7</u>
<b>Investments</b>					
Investment in Network Rail.....	13(b)	—	—	—	—
CLRL – Share of gross assets.....	13(a)	2.8	1.6	2.8	1.6
CLRL – Share of gross liabilities.....	13(a)	(2.8)	(1.6)	(2.8)	(1.6)
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total fixed assets.....</b>		<b>13,072.4</b>	<b>117.7</b>	<b>107.0</b>	<b>117.7</b>
<b>Current Assets</b>					
Stocks.....	14	37.8	—	—	—
Debtors falling due within one year.....	15	829.4	292.3	204.6	292.3
Debtors falling due after more than one year.....	15	85.1	55.1	56.3	55.1
Non-operational property.....	17	64.9	56.7	64.9	56.7
Current asset investments.....	16	177.6	—	—	—
Cash at bank and in hand.....		31.5	14.1	14.8	14.1
		<u>1,226.3</u>	<u>418.2</u>	<u>340.6</u>	<u>418.2</u>
Less:					
Creditors falling due within one year.....	18(a)	(10,863.4)	(292.3)	(321.2)	(292.3)
<b>Net Current Assets/(Liabilities).....</b>		<b>(9,637.1)</b>	<b>125.9</b>	<b>19.4</b>	<b>125.9</b>
<b>Total Assets less Current Liabilities.....</b>		<b>3,435.3</b>	<b>243.6</b>	<b>126.4</b>	<b>243.6</b>
Less:					
Creditors falling due after more than one year.....	18(b)	(2,873.1)	(296.5)	(277.4)	(296.5)
Provisions for liabilities and charges.....	19	(1,220.9)	(831.1)	(1,429.1)	(831.1)
		<u>(658.7)</u>	<u>(884.0)</u>	<u>(1,580.1)</u>	<u>(884.0)</u>
<b>Reserves</b>					
Revaluation reserve.....	25(a)	841.1	146.4	142.9	146.4
		(£m)	(£m)	(£m)	(£m)
Income and Expenditure reserve.....	25(b)	(995.7)	(470.3)	(1,218.9)	(470.3)
Revenue Grant reserve.....	25(c)	(508.7)	(562.4)	(508.7)	(562.4)
Capital Grant reserve.....	25(d)	4.6	2.3	4.6	2.3
		<u>(658.7)</u>	<u>(884.0)</u>	<u>(1,580.1)</u>	<u>(884.0)</u>

Signed on behalf of the Board on 9 July 2003

Richard Bowker  
Chairman & Chief Executive

Doug Sutherland  
Managing Director Finance & Commercial

## Cash Flow Statement for the year ended 31 March 2003

	Note	Group		Authority	
		2003	2002	2003	2002
		(£m)	(£m)	(£m)	(£m)
<b>Net cash (outflow)/inflow from operating activities</b> .....	27(a)	(202.9)	(26.4)	302.3	(26.4)
<b>Returns on investments and servicing of finance</b>					
Interest received from leasing debtors .....		0.5	3.2	0.5	3.2
Other interest received .....		11.4	2.8	2.4	2.8
Interest paid in respect of finance leases .....		(1.6)	(5.0)	(1.6)	(5.0)
Other interest paid .....		(185.6)	(12.5)	(11.9)	(12.5)
<b>Net cash outflow from returns on investments and servicing of finance</b> .....		(175.3)	(11.5)	(10.6)	(11.5)
<b>Capital expenditure and financial investment</b>					
Purchase of assets .....		(1,686.3)	(6.8)	(6.5)	(6.8)
Sale of assets .....		60.0	19.5	33.0	19.5
Capital receipts from leasing debtors .....		5.3	3.4	2.3	3.4
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b> .....		(1,621.0)	16.1	28.8	16.1
<b>Acquisitions</b> .....		—	—	(300.0)	—
<b>Management of liquid resources</b>					
Decrease in cash on deposit .....	27(b)	12.0	40.2	12.0	40.2
Sale of short term investments .....		233.4	—	—	—
<b>Net cash inflow from management of liquid resources</b> .....		245.4	40.2	12.0	40.2
<b>Financing</b>					
New loans .....		8,438.0	—	—	—
Repayment of loans & leases .....		(6,654.8)	(14.7)	(19.8)	(14.7)
<b>Net cash inflow/(outflow) from financing</b> .....		1,783.2	(14.7)	(19.8)	(14.7)
<b>Increase in cash at bank and in hand</b> .....		29.4	3.7	12.7	3.7

## 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 2 July 2003 as shown on page 123<sup>1</sup> which states that the SRA's financial statements should be presented in the form of group accounts, prepared in accordance with applicable accounting standards. The Group is made up of the core Authority, (as defined by Transport Act 2000), all subsidiaries and joint ventures. These include Network Rail Ltd, a quasi subsidiary of the SRA (see note 1). 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.

The Authority continuing business of the SRA reflects the results of the Authority after the elimination of intra-group transactions for the twelve months to 31 March 2003. Acquisitions reflect the trading results after the elimination of intra group transactions of Network Rail (see note 1 and note 13(b)), from 3 October 2002 to 31 March 2003.

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 about the parent company in line with the Companies Acts. The Direction defines the parent as the Authority and its subsidiaries with the exception of Network Rail. Accordingly within these accounts the parent is called the "Authority".

Restatement of amounts for the year to 31 March 2002 relating to the treatment of Network Grant and incentive regimes are disclosed within these accounts. These arise from changes to accounting policies which are set out in full in note 28.

### (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 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 in which the activity was performed. Income excludes work performed on the Group's own assets.

### (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 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.

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<sup>1</sup> Page references in this Statement of Accounting Policies are references to pages of the SRA's audited consolidated financial statements for the year ended 31 March 2003 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*").

(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**

With regard to franchise agreements the contractual subsidy payable or premia receivable within each 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.

This represents a change from the previous year, and is therefore treated as a prior year adjustment, details of which are given in note 28.

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. The charge to the Income and Expenditure Account is set so as to spread the cost of pensions over employees' working lives. Differences between the amount charged to the Income and Expenditure Account and payments made to schemes are treated as assets or liabilities in the Balance Sheet.

The Group has adopted the transitional arrangements for pension cost disclosure detailed in FRS 17 and has therefore included the new disclosures within the notes to the accounts. Further details are given in note 10 to the financial statements.

*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, a charge/credit of 6% of net assets/liabilities of the Group is made to 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 will be 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 of 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 his statement the Regulator indicated that he proposes to make certain adjustments to the regulatory asset base (RAB) to reflect the additional expenditure on operating, maintaining and renewing the network in the two years ended 31 March 2003. Given that the RAB represents the value in use of the railway network (being, in effect, a discounted future cashflow calculation) it was considered that it gives a much clearer and more accurate economic assessment of the value to the business of the network as an asset. This clarity is particularly vital at a time when the RAB has increased significantly in a short period of time and is likely to continue to do so in the near future.

In addition it brings the valuation of fixed assets in these accounts much closer in line with the valuation in Network Rail Infrastructure Ltd'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	3-10 years
Railway Network	25 years (estimated remaining weighted average useful economic life)

Depreciation is not provided on investment properties, in accordance with SSAP19, 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 is amortised over the estimated weighted average useful economic life of the railway network of 25 years.

(xiv) **Research and Development Expenditure**

Development expenditure is capitalised as an intangible 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 on the lease.

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

(xvii) **Grants**

Grants and other contributions 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.

(xxi) **Investments**

Current asset investments are stated at the lower of cost and net realisable value, except where these 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, and 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 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. Derivative products 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 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. In order to secure the benefits of an early exit of Railtrack plc from special railway administration and the continuing development of the network, the SRA paid to Network Rail the sum of £300m by way of a capital grant. Together with £210m provided by Network Rail Ltd, this enabled Network Rail to purchase the entire issued share capital of Railtrack from Railtrack Group plc.

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, it 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 enabled third party borrowing to be raised to purchase shares in Railtrack plc, re-finance debt existing at the time of acquisition, and provide working capital (approximately £10bn) and to cover legacy costs, being the ongoing costs of Network Rail Infrastructure Ltd (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 (£4bn); and
- a standby credit facility of £3bn for overruns on legacy costs, 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 either expire, or are capable of extensions such that they expire, in 2005, which should coincide with the implementation of the conclusions of the Interim Review currently underway. The Interim Review is the mechanism by which the Rail Regulator reviews Network Rail's charging basis and regime.

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 this does not include Network Rail. Network Rail as a private sector company does not have an Accounting Officer.

The accounts of Network Rail Ltd and Network Rail Infrastructure Ltd are available on the Network Rail website ([www.networkrail.co.uk](http://www.networkrail.co.uk)).

## 2 Deficit for the Year

	<b>Group</b> <b>31 March 2003</b>	<b>Authority</b> <b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>
<b>Result for the year</b> .....	(544.9)	(768.1)
Timing differences:		
Grant in aid .....	120.2	120.2
Provision .....	637.1	637.1
	<u>757.3</u>	<u>757.3</u>
Other non cash items .....	14.5	14.5
Grant for purchase of Railtrack .....	(300.0)	—
<b>Trading (deficit)/surplus</b> .....	<u>(73.1)</u>	<u>3.7</u>

Both the Group and the Authority have recorded a loss for the year. These losses 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 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 19(h)). As set out above, government accounting guidance does not allow grant income, which will ultimately fund the utilisation of these provisions, to be recognised until the cash expenditure is voted by Parliament.

In addition £14.5m has been charged to the Income and Expenditure Account within the Authority arising from depreciation and other non cash items, which does not form part of the government target.

The Authority made a small surplus before these differences, representing a marginal improvement against the government target for the year.

### 3 Income

#### (a) Trading Income

	<b>Group</b>	<b>Authority</b>	<b>Group and Authority Restated</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>	<b>31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Track Access Income (Passenger franchise revenue) .....	800.0	—	—
Track Access Income (Freight revenue) .....	35.0	—	—
Income from TOCs .....	89.9	89.9	79.1
Railtrack fines and penalties .....	—	—	7.9
Rents and service charges .....	104.5	29.4	24.4
Policing activities .....	85.7	104.7	99.9
Miscellaneous income .....	31.7	2.5	1.1
	<u>1,146.8</u>	<u>226.5</u>	<u>212.4</u>

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

Income from TOCs consists of £70.5m (2002 £72.5m) 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. The remaining TOC income arises from performance receipts.

During the year the Authority changed its accounting policy as described in the statement of accounting policies (vi) relating to the accounting treatment of performance regimes. The previous year's comparatives have been restated to take into account the change in policy. This has been treated as a prior year adjustment. However, as it relates only to a re-ordering of the income, there is no impact on the reported result for the year.

#### (b) Government Grant

	<b>Group and Authority</b>	<b>Group and Authority Restated</b>
	<b>31 March 2003</b>	<b>31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>
Grant received in respect of current period from DfT .....	2,158.8	1,603.0
Grant received in respect of current period from Scottish Executive .....	114.0	70.3
Grant received from Home Office .....	1.2	—
Total Grants Received .....	<u>2,274.0</u>	<u>1,673.3</u>

	<b>Group and Authority 31 March 2003</b>	<b>Group and Authority Restated 31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>
Movement in Grant debtor/creditor from DfT .....	(31.1)	76.0
Movement in Grant debtor/creditor from Scottish Executive .....	(3.6)	—
Deferred income .....	(0.3)	—
Grant in respect of payments made to Revenue Grant reserve.....	(62.5)	(64.0)
Grant in respect of fixed assets transferred to Capital Grant reserve .....	(302.3)	(0.8)
Grant in respect of Joint Venture.....	12.7	2.8
Grant included within income.....	<u>1,886.9</u>	<u>1,687.3</u>

The Authority was entitled to draw down £2,199.9m (net of property receipts) from DfT, and £134.1m from the Scottish Executive, amounting to £2,334.0m 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 (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 £24.8m (2002 £15.4m ) is included within the grant received in the current period from DfT. The repayment of this grant is included within operating expenditure. In the year to 31 March 2002, the property receipts were shown as a deduction from the grant income total. The results to 31 March 2002 have been restated to take account of the revised presentation (see note 28).

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 services 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:

	<b>Group</b> <b>31 March 2003</b>	<b>Authority</b> <b>31 March 2003</b>	<b>Group and</b> <b>Authority</b> <b>Restated</b> <b>31 March 2002</b>	<b>Group and</b> <b>Authority</b> <b>31 March 2002</b>
	(£m)	(£m)	(£m)	(£m)
<b>Included in income</b> <i>(receipt/(payment))</i>				
Access charge supplements .....	43.0	—	—	—
Net penalty (to) customers (access agreements).....	(284.0)	—	—	—
Franchise agreements .....	4.5	4.5	6.6	86.6
Regulatory review.....	13.9	13.9	17.4	182.9
<b>Included in income (note 3(a)) .....</b>	<b>(222.6)</b>	<b>18.4</b>	<b>24.0</b>	<b>269.5</b>
<b>Included in expenditure</b> <i>(receipt/(payment))</i>				
Franchise agreements .....	59.2	59.2	78.6	(1.4)
Regulatory review.....	187.7	187.7	165.5	—
<b>Included in expenditure (note 5).....</b>	<b>246.9</b>	<b>246.9</b>	<b>244.1</b>	<b>(1.4)</b>

In the year to 31 March 2002 all income from performance regimes was shown as income. Due to the change in accounting policy set out in statement of accounting policies (vi) income now only includes performance receipts from those TOCs who pay franchise premia. Performance receipts from all other TOCs are included as a reduction to expenditure. No overall impact on the total net performance receipts has arisen from the restatement.

#### 4 Segmental Analysis

<b>Group</b>	<b>Total Income</b> <b>31 March</b> <b>2003</b>	<b>Operating</b> <b>Surplus/</b> <b>(Deficit)</b> <b>31 March</b> <b>2003</b>	<b>Net Operating</b> <b>Assets/</b> <b>(Liabilities)</b> <b>31 March</b> <b>2003</b>
	(£m)	(£m)	(£m)
<b>2003 Analysis</b>			
Strategic Rail Authority .....	1,864.6	(181.0)	(756.9)
BRB (Residuary) Ltd.....	119.1	(35.9)	(272.7)
British Transport Police.....	86.0	(19.4)	2.7
RDDS Ltd.....	0.3	—	0.1
DOA Ltd.....	8.6	8.6	(2.7)
Crossrail Joint Venture .....	12.7	—	—
	<u>2,091.3</u>	<u>(227.7)</u>	<u>(1,029.5)</u>
Less Crossrail Joint Venture .....	(12.7)	—	—
Continuing business.....	2,078.6	(227.7)	(1,029.5)
Network Rail.....	942.4	(204.7)	370.8
<b>Group</b>	<b><u>3,021.0</u></b>	<b><u>(432.4)</u></b>	<b><u>(658.7)</u></b>



<b>Authority</b>	<b>Total Income 31 March 2003</b>	<b>Operating Surplus/ (Deficit) 31 March 2003</b>	<b>Net Operating Assets/ (Liabilities) 31 March 2003</b>
	(£m)	(£m)	(£m)
<b>2003 Analysis</b>			
Strategic Rail Authority .....	1,867.2	(726.8)	(1,309.9)
BRB (Residuary) Ltd.....	119.1	(35.9)	(272.7)
British Transport Police.....	105.5	0.1	5.1
RDDS Ltd.....	0.3	—	0.1
DOA Ltd.....	8.6	8.6	(2.7)
Crossrail Joint Venture .....	12.7	—	—
	<u>2,113.4</u>	<u>(754.0)</u>	<u>(1,580.1)</u>
Less Crossrail Joint Venture .....	(12.7)	—	—
<b>Authority</b> .....	<u><u>2,100.7</u></u>	<u><u>(754.0)</u></u>	<u><u>(1,580.1)</u></u>

<b>Group and Authority</b>	<b>Total Income Restated 31 March 2002</b>	<b>Operating Surplus/ (Deficit) Restated 31 March 2002</b>	<b>Net Operating Assets/ (Liabilities) Restated 31 March 2002</b>
	(£m)	(£m)	(£m)
<b>2002 Analysis</b>			
Strategic Rail Authority .....	1,766.8	(456.7)	(620.7)
BRB (Residuary) Ltd.....	24.4	(7.3)	(263.3)
British Transport Police.....	99.9	(1.6)	2.5
RDDS Ltd.....	0.3	—	0.1
DOA Ltd.....	5.5	5.5	(2.6)
Crossrail Joint Venture .....	2.8	—	—
	<u>1,899.7</u>	<u>(460.1)</u>	<u>(884.0)</u>
Less Crossrail Joint Venture .....	(2.8)	—	—
<b>Group and Authority</b> .....	<u><u>1,896.9</u></u>	<u><u>(460.1)</u></u>	<u><u>(884.0)</u></u>

Income originates wholly in the United Kingdom.

The SRA's key activities are described on pages 18 to 61<sup>1</sup> of this report.

BRB (Residuary) Ltd 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 page 62-63<sup>1</sup> 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 is described in further detail in note 9.

RDDS Ltd is a wholly owned subsidiary of BRB (Residuary) Ltd which is the custodian of intellectual property on railway rolling stock drawings. It generates income through granting copies of these drawings.

DOA Ltd is a wholly owned subsidiary of the SRA which is responsible for the administration of deeds of assumption with the PTEs.

Network Rail Ltd is treated as a quasi subsidiary of the SRA within the financial statements of the SRA (see note 1). Network Rail Ltd is the holding company of Network Rail Infrastructure Ltd which operates, maintains and renews the GB rail infrastructure.

The Crossrail joint venture (Cross London Rail Links Ltd) is described in note 13(a).

## 5 Analysis of Operating Expenditure

	<b>Group 31 March 2003</b>	<b>Authority 31 March 2003</b>	<b>Group and Authority Restated 31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Support for Passenger Rail Service (England and Wales) .....	934.4	934.4	746.8
Support for Passenger Rail Service (Scotland) .....	90.3	90.3	63.6
PTE Grants .....	218.4	218.4	210.1
Freight Track Access Grants.....	21.5	21.5	24.2
Capital Grants .....	537.2	1,036.2	1,014.8
Staff costs (note 6(g)) .....	388.3	102.3	96.0
Materials, supplies and services.....	1,448.2	387.6	142.7
Estate management costs .....	36.8	36.8	38.5
Property sales proceeds – payments to DfT .....	24.8	24.8	15.4
Own work capitalised .....	(156.0)	—	—
Impairment of investment (note 13(b)).....	—	300.0	—
Writeback of Capital Grant (note 13(b)).....	(300.0)	(300.0)	—
Amortisation of goodwill.....	2.1	—	—
Depreciation .....	221.9	2.9	5.3
Capital grants amortised .....	(14.5)	(0.5)	(0.4)
Operating expenditure .....	<u>3,453.4</u>	<u>2,854.7</u>	<u>2,357.0</u>

<sup>1</sup> References to page numbers in these “Notes to the Accounts” are to the pages of the SRA’s audited consolidated financial statements for the year ended 31 March 2003 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*”).

Subsidy payments to TOCs in the year to 31 March 2003 were £1,024.7m (2002 £810.4m), including performance receipts. The Rail Regulator, as part of his regulatory review, made changes to Railtrack's (now Network Rail Infrastructure Ltd) 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. Performance receipts are now shown as a reduction to subsidy, where appropriate, due to the change in accounting policy described in the statement of accounting policies (vi). The value of net performance receipts included within subsidy is set out in note 3(c).

Capital grants include £27.7m (2002 £32.8m) in respect of Freight Facilities grants and £12.5m (2002 £2m) in respect of Cross London Rail Links Ltd. Capital grants also includes £996.0m (2002 £980.0m) of grant to Railtrack plc (now Network Rail Infrastructure Ltd).

Materials, supplies and services include the costs of undertaking a range of project based work undertaken by the Authority. This includes the sponsorship of infrastructure enhancement schemes amounting to £122.4m (2002 £59.2m), policy and strategy development of £24.1m (2002 £7.5m) and franchise renewal of £26.9m (2002 £10.9m). It also includes £1.1bn of costs that were incurred by Network Rail on the operation and maintenance of the railway infrastructure, and £119.2m arising from increases to provisions other than capital grant, which is included within capital grants above.

## 6 Operating Result

(a) **The operating result for the period is stated after charging:**

	<b>Group</b>	<b>Authority</b>	<b>Group and</b>
	<b>31 March</b>	<b>31 March</b>	<b>Authority</b>
	<b>2003</b>	<b>2003</b>	<b>31 March</b>
	<b>2003</b>	<b>2003</b>	<b>2002</b>
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Auditors' remuneration and expenses .....	0.7	0.3	0.3
Depreciation on owned assets .....	221.9	2.9	5.4
Amortisation of intangible fixed assets .....	1.0	—	—
Amortisation of goodwill .....	2.1	—	—
Research and development .....	5.0	—	—
Hire of plant and equipment .....	0.1	0.1	0.4
Plant and machinery leases and rentals .....	3.0	—	—
Property leases and rentals .....	64.8	27.6	33.1
Foreign exchange losses .....	0.2	0.2	0.2

The National Audit Office are the statutory auditors of the Group. The audit of the Authority is undertaken by PricewaterhouseCoopers on behalf of the NAO. The fees associated with the Group audit are reflected above, as auditors' remuneration and expenses. Network Rail is audited by Deloitte & Touche. The National Audit Office have acted as principal auditors in undertaking the audit of the Group and subsidiary companies. In the period to 31 March 2003 PricewaterhouseCoopers have undertaken non audit work amounting to £2.2m, which comprises advice on projects, legal advice, and

tax advice (2002 £0.4m), and Deloitte & Touche have undertaken non audit work amounting to £0.4m.

(b) **Charitable donations**

During the period the Authority made no charitable donations. In the period to 31 March 2003 Network Rail made charitable donations of £393k, and made payments of £130k to sponsor charitable and community related activities. No political donations were made.

(c) **Statement of losses and special payments**

The Group and Authority incurred £28.5m (2002 £21m) of special losses during the twelve month period relating to the operation of franchises. These losses were approved by the Secretary of State.

(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, principally in respect of property, as follows:

<b>Land and buildings</b>	<b>Group 31 March 2003</b>	<b>Authority 31 March 2003</b>	<b>Group and Authority 31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Leases expiring within one year .....	2.8	0.8	0.6
Leases expiring between one and five years.....	10.1	3.1	4.8
Leases expiring in more than five years .....	31.3	15.3	14.3
	<u>44.2</u>	<u>19.2</u>	<u>19.7</u>
<b>Other</b>	<b>Group 31 March 2003</b>	<b>Authority 31 March 2003</b>	<b>Group and Authority 31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Leases expiring within one year .....	40.0	—	—
Leases expiring between one and five years.....	8.0	—	—
Leases expiring in more than five years .....	—	—	—
	<u>48.0</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<b>Group 31 March 2003</b>	<b>Authority 31 March 2003</b>	<b>Group and Authority 31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Leases expiring within one year .....	42.8	0.8	0.6
Leases expiring between one and five years.....	18.1	3.1	4.8
Leases expiring in more than five years .....	31.3	15.3	14.3
	<u>92.2</u>	<u>19.2</u>	<u>19.7</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 Ltd.

	<b>Authority</b>	<b>Authority</b>
	<b>31 March</b>	<b>31 March</b>
	<b>2003</b>	<b>2002</b>
	<i>(£000)</i>	<i>(£000)</i>
Executive Board Members' Salaries .....	256	315
Benefits .....	55	64
Termination payments.....	—	280
Fees paid to non-executive Board Members.....	156	106
	<u>467</u>	<u>765</u>
Payments to pension plans .....	<u>17</u>	<u>49</u>

	<b>Age</b>	<b>Contract Expiry</b>	<b>Salary</b>	<b>Taxable</b>	<b>Total</b>	<b>Pension</b>	<b>Total</b>
		<b>Dates</b>	<b>(£000)</b>	<b>Benefits</b>	<b>(£000)</b>	<b>Contributions</b>	<b>(£000)</b>
				<b>in kind</b>			
				<b>(£000)</b>			
Richard Bowker ....	36	30 November 2006	256	38	294	17	311
Total Executive .....			<u>256</u>	<u>38</u>	<u>294</u>	<u>17</u>	<u>311</u>
L D Adams .....	63	30 November 2004	14	—	14	—	14
M Banerjee .....	56	30 November 2006	14	—	14	—	14
D A Begg .....	46	30 April 2005	14	—	14	—	14
W Gallagher .....	44	30 April 2005	14	—	14	—	14
D Grayson .....	47	30 April 2005	14	—	14	—	14
A Hemingway .....	55	30 April 2002	1	—	1	—	1
J Lewis-Jones .....	52	30 November 2006	14	—	14	—	14
P H Kent.....	65	30 November 2004	19	—	19	—	19
J Mayhew	44	30 April 2005	18	—	18	—	18
D Norgrove .....	55	30 November 2006	14	—	14	—	14
D A Quarmby .....	61	30 November 2004	18	—	18	—	18
J Rubin .....	53	30 April 2002	1	—	1	—	1
K Small .....	37	30 April 2002	1	—	1	—	1
Total Non-Executive .....			<u>156</u>	<u>—</u>	<u>156</u>	<u>—</u>	<u>156</u>

	<u>Age</u>	<u>Contract Expiry Dates</u>	<u>Salary</u>	<u>Taxable Benefits in kind</u>	<u>Total</u>	<u>Pension Contri- butions</u>	<u>Total</u>
Total Board Members .....			412	38	450	17	467

A bonus of £13,500 for the period to 31 March 2002 is payable to the Chairman. The Chairman has elected to donate this bonus to the Railway Children Fund charity. The bonus for the period to 31 March 2003 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 for pension arrangements.

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 3-4 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. A Hemingway, J Rubin and K Small have all retired from the SRA Board at their contract expiry dates.

(f) **Staff numbers**

The average number of staff employed during the year excluding Board Members and Special Constables, was as follows:

	<b>Average Number employed</b>	<b>Average Number employed</b>
	<b>31 March 2003</b>	<b>31 March 2002</b>
Strategic Rail Authority.....	382	354
BRB (Residuary) Ltd .....	44	52
Rail Passengers' Council.....	58	57
British Transport Police.....	2,387	2,302
<b>Total Authority</b> .....	<b>2,871</b>	<b>2,765</b>
Network Rail .....	13,543	—
<b>Total Group</b> .....	<b>16,414</b>	<b>2,765</b>

The numbers for British Transport Police exclude Special Constables, of which there were 139 at 31 March 2003 (73 at 31 March 2002).

In addition, there were 11 Board Members (1 Executive, 10 Non-Executive) at 31 March 2003, (1 Executive, 10 Non-Executive at 31 March 2002), and 139 members of the RPC committees and

council (121 at 31 March 2002).

(g) **Total staff costs**

	<b>Group 31 March 2003</b>	<b>Authority 31 March 2003</b>	<b>Group and Authority 31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Salaries and wages .....	318.5	89.5	83.1
Employer's liability for social security costs.....	26.9	6.9	7.0
Employer's liability for other pension costs.....	42.1	5.1	4.8
Other costs.....	0.8	0.8	1.1
	<u>388.3</u>	<u>102.3</u>	<u>96.0</u>

The cost of temporary and contract staff for the Authority was £7.9m (2002 £6.5m).

(h) **Senior staff**

In accordance with the Accounts Direction the Authority is required to make disclosures about its senior management. The Authority has reorganised its management structure and as a result of this new executive posts have been created.

	<b>Age</b>	<b>Start Date</b>	<b>Salary</b>	<b>Taxable Benefits in kind</b>	<b>Total</b>	<b>Pension Contri- butions</b>	<b>Total</b>
			<i>(£000)</i>	<i>(£000)</i>	<i>(£000)</i>	<i>(£000)</i>	<i>(£000)</i>
N Newton – MD Operations .....	56	1 April 2002	130	—	130	2	132
N Shaw – Chief Operating Officer....	33	3 February 2003	20	—	20	3	23
J Steer – MD Strategic Planning...	54	7 May 2002	137	—	137	—	137
D Sutherland – MD Finance & Commercial .....	50	1 July 2002	105	—	105	1	106
Total .....			<u>392</u>	<u>—</u>	<u>392</u>	<u>6</u>	<u>398</u>

The MD of Strategic Planning, Jim Steer, has been seconded from Steer Davies Gleave Limited for 3 years commencing from 7 May 2002 (see note 29). All senior managers with the exception of Jim Steer are on permanent contracts of employment.



## 7 Net Interest

	<b>Group 31 March 2003</b>	<b>Authority 31 March 2003</b>	<b>Group and Authority 31 March 2002</b>
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Interest receivable on			
Short term deposits .....	2.3	2.3	2.3
Leases .....	0.5	0.5	3.2
Other .....	9.1	0.1	0.5
<b>Interest receivable</b> .....	<u>11.9</u>	<u>2.9</u>	<u>6.0</u>
Interest payable on			
Bank loans and overdrafts .....	185.6	—	—
Loans .....	27.9	11.8	12.5
Leases .....	1.7	1.7	5.0
Total interest payable .....	<u>215.2</u>	<u>13.5</u>	<u>17.5</u>
Unwinding of discount on provisions and long term creditors ...	14.4	14.4	17.7
Interest capitalised .....	(28.0)	—	—
<b>Interest payable and similar charges</b> .....	<u>201.6</u>	<u>27.9</u>	<u>35.2</u>
Net interest payable .....	<u>(189.7)</u>	<u>(25.0)</u>	<u>(29.2)</u>

## 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 charge of the Authority in the period is £nil (2002 £nil).

The tax credit for Network Rail is £41.3m as set out below.

<b>Analysis of credit in year</b>	<b>31 March 2003</b>
	<u>(£m)</u>
Current UK Corporation Tax at 30% .....	—
Over provision in respect of prior years .....	6.0
<b>Total current tax credit</b> .....	<u>6.0</u>
Deferred tax at 30% .....	—
Credit for timing differences arising in the year .....	35.3
<b>Total deferred tax</b> .....	<u>35.3</u>

<b>Analysis of credit in year</b>	<b>31 March 2003</b>
	<u>(£m)</u>
<b>Tax credit on loss on ordinary activities</b> .....	<u>41.3</u>

**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:

	<b>2003</b>
	<u>(£m)</u>
<b>Loss on ordinary activities before tax</b>	
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%.....	(47.0)
Accelerated capital allowances .....	(107.0)
Tax losses carried forward.....	166.0
Other short term timing differences .....	(24.0)
Adjustments in respect of prior years.....	(6.0)
Permanent differences .....	12.0
<b>Total current tax credit</b> .....	<u>(6.0)</u>

The loss used to calculate the tax charge is the reported loss of Network Rail Ltd before consolidation adjustments, as Network Rail Ltd has a separate tax group.

**9 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 Ltd 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 Ltd and Docklands Light Railway have also entered into PSAs and the Authority has also 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 has been introduced into Parliament to enable the creation of a separate Police Authority into which the British Transport Police will be transferred. This Authority will be accountable to DfT and will operate on a similar basis to now. It is anticipated that the new Police Authority will commence in 2004.

**10 Pension Schemes**

The Authority has adopted the transitional arrangements for pension cost disclosure detailed in FRS 17. These arrangements require that additional disclosures are provided regarding the assets and liabilities of each defined benefit pension scheme run by the Authority, along with the assumptions used for the actuarial valuations. An interim valuation has been carried out by independent qualified actuaries Watson Wyatt

Partners on the Authority's defined contribution schemes as at 31 March 2003 for the purpose of providing these disclosures.

References to the Income and Expenditure Account and Balance Sheet in respect of Network Rail refer only to the Group Financial Statements; references in all other schemes refer to both Group and Authority financial statements.

#### **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 benefits scheme backed by Government. The charge to the Income and Expenditure Account in the 12 months was £1.6m. No SSAP 24 adjustment is required for this scheme.

The Authority is unable to identify its own assets and liabilities within the Civil Service Scheme which is being valued separately on behalf of the Cabinet Office. The scheme has been treated as a defined contribution scheme under FRS 17 for the purposes of FRS 17.

#### **Railways Pension Scheme**

The SRA operates two sections of the Railways Pension Scheme. The BR shared cost section has most of the BRB (Residuary) Ltd employees, civilian members of the British Transport Police and some SRA employees. The OPRAF section has some of the SRA employees, primarily those who were formerly employed by the Franchising Director. 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.

The last actuarial reviews of both the BR Shared Cost section and OPRAF section were carried out as at 31 December 2001 by independent qualified actuaries Watson Wyatt Partners using the projected unit method. The main assumptions used for the cost of accruing benefits were that the rate of increase in prices would be 2.5% per annum, investment return on new investments would be 6.3% per annum and that future pensionable pay awards would exceed price inflation by 1.5%. 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 £57.3m. 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 regular service 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. The BR Section is currently receiving reduced contributions from employees of 5% of Section Pay. The Authority has suspended contributions on the basis of actuarial advice and benefit improvements that were granted to all members of the BR Section.

The charge to the Income and Expenditure Account for the 12 months to 31 March 2003 was £nil and there was no accumulated difference between the charges to the Income and Expenditure Account and cash contributions held in the Balance Sheet at 31 March 2003, i.e. no SSAP 24 adjustment is required. Increases to employee contribution will be phased in from October 2003.

#### **OPRAF Section**

The market value of assets (net of AVC amounts) of the OPRAF Section at 31 December 2001 was £8.3m. 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 regular service 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. The OPRAF Section is currently receiving contributions from employees of 5% of Section Pay. The balance of the cost is met by the Authority.

The charge to the Income and Expenditure Account for the 12 months to 31 March 2003 was £ 0.4m and there was no accumulated difference between the charges to the Income and Expenditure Account and cash contributions held in the Balance Sheet at 31 March 2003. Employer contributions for the period ending 31 March 2003 are 21.2% of Section Pay. Increases to both employee and employers contributions will be phased in from October 2003 to address the deficit on this section.

Both sections are open to new members.

Financial assumptions:

The latest actuarial valuation as at 31 December 2001 was updated to 31 March 2003 for FRS 17 purposes by an independent qualified actuary using the following assumptions set out in the table below.

	<u>31 March 2003</u>	<u>31 March 2002</u>
	(% pa)	(% pa)
Inflation .....	2.1	2.5
Rate of increase in salaries* .....	3.6	4.0
Rate of increase of pensions in payment .....	2.1	2.5
Rate of increase for deferred pensioners .....	2.1	2.5
Discount rate	5.4	5.7

\* plus 0.75% and 1.0% pa promotional salary scale (BR section) and 1% promotional salary scale (OPRAF section)

Fair value of assets and expected rate of return:

The following fair values at 31 March 2003 were measured in accordance with the requirements of FRS 17.

	<u>BR Shared Cost Section</u>		<u>OPRAF section</u>		<u>Expected rate of return</u>	
	<u>31 March 2003</u>	<u>31 March 2002</u>	<u>31 March 2003</u>	<u>31 March 2002</u>	<u>31 March 2003</u>	<u>31 March 2002</u>
	(£m)	(£m)	(£m)	(£m)	(% pa)	(% pa)
Equities .....	36.0	49.7	5.1	7.3	8.2	7.5
Bonds .....	4.4	5.6	0.6	0.8	4.8	5.2
Property .....	3.6	3.3	0.5	0.4	6.5	6.5
Other .....	(0.5)	(0.1)	0.1	0.1	3.6	—
<b>Total</b> .....	<u>43.5</u>	<u>58.5</u>	<u>6.3</u>	<u>8.6</u>	<u>7.7</u>	<u>7.2</u>

Reconciliation to balance sheet:

	BR Shared Cost Section		OPRAF Section	
	31 March 2003	31 March 2002	31 March 2003	31 March 2002
	(£m)	(£m)	(£m)	(£m)
Actuarial value of Section liabilities .....	(41.5)	(40.6)	(11.7)	(9.8)
Fair value of Section assets .....	43.5	58.5	6.3	8.6
Surplus/(deficit) .....	2.0	17.9	(5.4)	(1.2)
Pension scheme asset/(liability) to be recognised in balance sheet (before deferred tax) .....	2.0	17.9	(5.4)	(1.2)
Deferred tax .....	(0.6)	(5.4)	1.6	0.3
<b>Pension scheme asset/(liability) to be recognised in balance sheet (after deferred tax) .....</b>	<b>1.4</b>	<b>12.5</b>	<b>(3.8)</b>	<b>(0.9)</b>

Components of defined benefit cost for the period ended 31 March 2003:

**Analysis of amounts charged to operating result:**

	BR Shared Cost Section	OPRAF Section
	Period ended 31 March 2003	Period ended 31 March 2003
	(£m)	(£m)
Current service cost .....	1.8	0.4
Past service costs .....	—	—
<b>Total charged to operating result .....</b>	<b>1.8</b>	<b>0.4</b>

**Analysis of the amounts charged to other finance income:**

	BR Shared Cost Section	OPRAF Section
	31 March 2003	31 March 2003
	(£m)	(£m)
Interest on Section liabilities .....	2.5	0.3
Expected return on Section assets .....	(3.5)	(0.3)
<b>Net charge/(credit) to other finance income .....</b>	<b>(1.0)</b>	<b>—</b>

**Analysis of amounts recognised in STRGL:**

	<b>BR Shared Cost Section</b>	<b>OPRAF Section</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>
(Gain)/loss on assets .....	17.7	2.7
Experience (gain)/loss on liabilities .....	(2.1)	1.7
(Gain)/loss on change of assumptions .....	(0.4)	(0.1)
<b>Total (gain)/loss recognised in STRGL before adjustment for tax .....</b>	<b>15.2</b>	<b>4.3</b>

Experience gains and losses:

	<b>BR Shared Cost Section</b>	<b>OPRAF Section</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>
<b>(Gain)/loss on Section assets</b>		
(i) Amount .....	17.7	2.7
(ii) % of Section assets at end of period.....	41%	42.3%
<b>Experience (gain)/loss on Section liabilities</b>		
(i) Amount .....	(2.1)	1.7
(ii) % of Section liabilities at end of period.....	(5%)	14.8%
<b>Total actuarial (gain)/loss recognised in STRGL</b>		
(i) Amount .....	15.2	4.3
(ii) % of Section liabilities at end of period.....	37%	36.8%

**Analysis of the movement in surplus/(deficit) in the Section during the period:**

	<b>BR Shared Cost Section</b>	<b>OPRAF Section</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>
Surplus/(deficit) in the Section at beginning of period .....	17.9	(1.2)
Contributions paid .....	0.1	0.5
Current service cost .....	(1.8)	(0.4)
Past service cost.....	—	—
Other finance income (charge).....	1.0	—
Actuarial gain/(loss).....	(15.2)	(4.3)

<b>Analysis of the movement in surplus/(deficit) in the Section during the period:</b>	<b>BR Shared Cost Section</b>	<b>OPRAF Section</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>
<b>Surplus/(deficit) in the Section at end of period .....</b>	<b>2.0</b>	<b>(5.4)</b>

#### **BT Police Force Superannuation Fund**

The British Transport Police Force Superannuation Fund exists for British Transport Police Officers and was valued at 31 December 1999 by independent qualified actuaries, Watson Wyatt Partners. This fund operates in two sections. The main assumptions used for the 1970 Section were that the rate of increase in prices was 3.0% per annum, investment return net of price inflation would be 3.75% per annum, that future pensionable pay awards would exceed price inflation by 1.5% per annum and that dividend growth on UK equities would be 1.0% per annum above the rate of price inflation. For the 1968 Section, prices were assumed to increase at 2.75% per annum and an investment return net of price inflation of 2.0% per annum was assumed. The market value of the assets at 31 December 1999 was £674.8m.

The actuarial value of the assets as at the valuation date was estimated to exceed the projected accrued liabilities by approximately 29% after allowing for future salary increases but before allowing for agreed future contribution reductions. The regular service 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.

The Fund is currently receiving reduced contributions of 10% of Scheme Salary from employees. With effect from 1 September 2000 the 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 2003 are £nil. This is expected to continue until 30 April 2004 when the employer contribution rate will increase to 15.0% of Scheme Salary from 1 May 2004 to 30 September 2012. It will then revert to 60% of the long-term joint contribution rate of 39.7% of Scheme Salary. This position will be reconsidered following the completion of the formal valuation of the scheme at 31 December 2002. Results from this are awaited.

The Fund is open to new members.

Financial assumptions:

The latest actuarial valuation as at 31 December 1999 was updated to 31 March 2003 for FRS 17 purposes by an independent qualified actuary using the following assumptions, and are set out in the table below:

	<b>31 March 2003</b>	<b>31 March 2002</b>
	<i>(%pa)</i>	<i>(%pa)</i>
Inflation .....	2.1	2.5
Rate of increase in salaries.....	3.6	4.0
Rate of increase of pensions in payment.....	2.1	2.5
Rate of increase for deferred pensioners.....	2.1	2.5
Discount rate.....	5.4	5.75

Fair value of assets and expected rate of return:

The following fair values at 31 March 2003 were measured using the above assumptions in accordance with the requirements of FRS 17.

	31 March 2003		31 March 2002	
	Fair value	Expected rate of return	Fair value	Expected rate of return
	(£m)	(% pa)	(£m)	(% pa)
Equities .....	345.4	8.2	479.1	7.5
Bonds .....	56.5	4.8	70.9	5.2
Property .....	35.9	6.5	33.2	6.5
Other .....	(0.1)	3.6	0.5	—
<b>Total.....</b>	<b>437.7</b>	<b>7.6</b>	<b>583.7</b>	<b>7.2</b>

Reconciliation to the balance sheet:

	31 March 2003	31 March 2002
	(£m)	(£m)
Actuarial value of Fund liabilities.....	(538.7)	(535.2)
Fair value of Fund assets .....	437.7	583.7
Pension Scheme (liability)/asset .....	(101.0)	48.5
Deficit attributable to members.....	40.4	—
<b>Pension scheme (liability)/asset to be recognised in balance sheet (before deferred tax) .....</b>	<b>(60.6)</b>	<b>48.5</b>
Deferred tax .....	18.2	(14.6)
<b>Pension scheme (liability)/asset to be recognised in the balance sheet (after deferred tax).....</b>	<b>(42.4)</b>	<b>33.9</b>

Components of defined benefit cost for the period ended 31 March 2003:

Analysis of amounts charged to operating result:	31 March 2003
	(£m)
Current service cost .....	12.8
Past service costs .....	—
<b>Total charged to operating profit .....</b>	<b>12.8</b>

Analysis of the amount charged to other finance income:

	31 March 2003
	(£m)
Interest on Fund liabilities .....	31.5



**Analysis of the amount charged to other finance income:**

**31 March 2003**

	<u>(£m)</u>
Expected return on Fund assets.....	<u>(37.4)</u>
<b>Net charge/(credit) to other finance income.....</b>	<b><u>(5.9)</u></b>

<b>Analysis of amounts recognised in STRGL:</b>	<b>31 March 2003</b>
	<u>(£m)</u>
(Gain)/loss on assets .....	175.0
Experience (gain)/loss on liabilities .....	(27.4)
(Gain)/loss on change of assumptions.....	(5.0)
<b>Total (gain)/loss recognised in STRGL before adjustment for tax .....</b>	<b><u>142.6</u></b>

Experience gains and losses:

	<b>31 March 2003</b>
	<u>(£m)</u>
<b>(Gain)/loss on Fund assets</b>	
(i) Amount	175.0
(ii) % of Fund assets at end of period	40%
<b>Experience (gain)/loss on Fund liabilities</b>	
(i) Amount	(27.4)
(ii) % of Fund liabilities at end of period	(5.1%)
<b>Total actuarial (gain)/loss recognised in STRGL</b>	
(i) Amount	142.6
(ii) % of Fund liabilities at end of period	26.5%

<b>Analysis of the movement in surplus/(deficit) in the Fund during the period:</b>	<b>31 March 2003</b>
	<u>(£m)</u>
Surplus/(deficit) in the Fund at beginning of period .....	48.5
Contributions paid .....	—
Current service cost .....	(12.8)
Past service cost .....	—
Other finance income/(charge).....	5.9
Actuarial gain/(loss).....	(142.6)
<b>Surplus/(deficit) in the Fund at end of period .....</b>	<b><u>(101.0)</u></b>

## 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.

A full actuarial valuation of the Network Rail Shared Cost Section was carried out by the scheme actuary at 31 December 2001 and adjusted to 31 March 2003 by a qualified independent actuary. The total contribution rate payable under the RPS is normally split in the proportion 60:40 between the group and members. At the date of acquisition of Railtrack plc the group and members were paying contributions of 7.5% and 5.0% of Section Pay respectively. With effect from 1 January 2003 the rates changed to 14.25% and 6.5% respectively, and this is due to change to 14.25% and 9.5% respectively over 2 years. 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 the company and members usually benefit from or pay for this respectively in the proportion 60:40. Based on the adjusted valuation, the pension charge for the period ended 31 March 2003 was £37million. The pension provision as at 31 March 2003 is £225 million.

The independent actuary has assessed the charge in respect of pension provision for the Network Rail group.

Financial assumptions:

The latest actuarial valuation as at 31 December 2001 was updated to 31 March 2003 for FRS 17 purposes by an independent qualified actuary using the following assumptions, and are set out in the table below:

	<b>31 March 2003</b>
	<i>% pa</i>
Inflation .....	2.6
Rate of increase in salaries.....	5.1
Rate of increase of pensions in payment.....	2.6
Rate of increase for deferred pensioners .....	0.0
Discount rate.....	5.4

Fair value of assets and expected rate of return:

The following fair values at 31 March 2003 were measured in accordance with the requirements of FRS 17.

	<b>31 March 2003</b>	
	<b>Fair value</b>	<b>Expected rate of return</b>
	<i>(£m)</i>	<i>% pa</i>
Equities .....	759	6.12
Bonds.....	103	4.12
Property .....	75	6.12
Other.....	0	0.00
<b>Total</b> .....	<b>937</b>	

Reconciliation to the balance sheet:

	<b>31 March 2003</b>
	<i>£m</i>
Actuarial value of Fund liabilities.....	(1,233)
Fair value of Fund assets .....	937
<b>Pension scheme deficit to be recognised in balance sheet (before deferred tax) .....</b>	<b>(296)</b>
Deferred tax.....	89
<b>Pension scheme asset/(liability) to be recognised in balance sheet (after deferred tax).....</b>	<b>(207)</b>

Components of defined benefit cost for the period ended 31 March 2003:

**Analysis of amounts charged to operating profit:**

	<b>31 March 2003</b>
	<i>£m</i>
Current service cost .....	23
Past service costs .....	—
<b>Total charged to operating profit .....</b>	<b>23</b>

**Analysis of amounts charged to other finance income:**

	<b>31 March 2003</b>
	<i>£m</i>
Interest on Fund liabilities .....	(31)
Expected return on Fund assets.....	27
<b>Net charge/(credit) to other finance income.....</b>	<b>(4)</b>

**Analysis of amounts recognised in STRGL:**

	<b>31 March 2003</b>
	<i>£m</i>
(Gain)/loss on assets .....	(18)
Experience (gain)/loss on liabilities.....	—
(Gain)/loss on change of assumptions.....	(141)
Expected employee contribution towards shared cost of deficit .....	68
<b>Total (gain)/loss recognised in STRGL before adjustment for tax .....</b>	<b>(91)</b>

Experience gains and losses:

	<b>31 March 2003</b>
	<u>(£m)</u>
<b>(Gain)/loss on Fund assets</b>	
(i) Amount.....	(18)
(ii) % of Fund assets at end of period.....	1.9%
<b>Experience (gain)/loss on Fund liabilities</b>	
(i) Amount.....	—
(ii) % of Fund liabilities at end of period.....	0%
<b>Total actuarial (gain)/loss recognised in STRGL</b>	
(i) Amount.....	(91)
(ii) % of Fund liabilities at end of period.....	<u>7.4%</u>

**Analysis of the movement in surplus/(deficit) in the Fund during the period:**

**31 March 2003**

	<u>(£m)</u>
Deficit in scheme acquired.....	(194)
Contributions paid.....	16
Current service cost.....	(23)
Past service cost.....	—
Other finance income/(charge).....	(4)
Actuarial loss.....	(91)
<b>Surplus/(deficit) in the Fund at end of period.....</b>	<b><u><u>(296)</u></u></b>

## Other Schemes

BRB (Residuary) Limited has a small number of other funded pension arrangements which relate almost entirely to individual drawing pensioners. The latest actuarial valuations of these funds have all been carried out as at 31 December 1999, 31 December 2000 or 31 December 2001. The valuations showed that the assets of the scheme covered the liabilities and that no contributions from the employer were required.

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 £0.1m (2002 £0.1m). A provision of £3.1m is held in the accounts against these liabilities (2002 £3.5m).

The provision held in respect of pensions for former BRB Board Members totalled £0.7m at 31 March 2003 (2002 £0.7m). The charge to Income and Expenditure Account during the period was £0.1m (2002 £nil).

The scheme held by Richard Bowker is a money purchase scheme.

## Summary

If the above amounts had been recognised in the financial statements, the Group's net assets and Income and Expenditure reserve at 31 March 2003 would be as follows:

	( <i>£m</i> )
Net liabilities excluding SSAP 24 pension asset.....	(652.1)
FRS 17 pension liability (after deferred tax).....	(280.1)
Net liabilities including FRS 17 pension liabilities.....	<u>(932.2)</u>
	( <i>£m</i> )
Income and Expenditure reserve excluding SSAP 24 pension asset.....	(989.1)
FRS 17 pension reserve (after deferred tax) .....	(280.1)
Income and Expenditure reserve including FRS 17 pension liability .....	<u>(1,269.2)</u>

## 11 Tangible Assets

### Group

Costs	Land and Buildings	Plant and Equipment	IT Equipment	Railway Network	Total
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Gross book values at 1 April 2002.....	34.0	40.0	2.8	—	76.8
Additions .....	1.8	1.1	3.6	12,284.5	12,291.0
Revaluations .....	3.7	—	—	698.2	701.9
Reclassification of assets .....	—	(15.4)	15.4	—	—
Disposals .....	(6.4)	(18.8)	(5.7)	—	(30.9)
Gross book values at 31 March 2003.....	<u>33.1</u>	<u>6.9</u>	<u>16.1</u>	<u>12,982.7</u>	<u>13,038.8</u>
<b>Depreciation</b>					
Accumulated depreciation at 1 April 2002 ....	5.9	32.5	1.1	—	39.5
Reclassification of assets .....	—	(11.6)	11.6	—	—
Disposals .....	(1.8)	(18.4)	(5.5)	—	(25.7)
Depreciation provided during period .....	0.4	1.2	1.3	219.0	221.9
Accumulated depreciation at 31 March 2003.	<u>4.5</u>	<u>3.7</u>	<u>8.5</u>	<u>219.0</u>	<u>235.7</u>
Net book values at 31 March 2003 .....	<u>28.6</u>	<u>3.2</u>	<u>7.6</u>	<u>12,763.7</u>	<u>12,803.1</u>
Net book values at 1 April 2002 .....	<u>28.1</u>	<u>7.5</u>	<u>1.7</u>	<u>—</u>	<u>37.3</u>

**Authority**

<b>Costs</b>	<b>Land and Buildings</b>	<b>Plant and Equipment</b>	<b>IT Equipment</b>	<b>Railway Network</b>	<b>Total</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Gross book values at 1 April 2002.....	34.0	40.0	2.8	—	76.8
Additions .....	1.8	1.1	3.6	—	6.5
Revaluations .....	3.7	—	—	—	3.7
Reclassification of assets .....	—	(15.4)	15.4	—	—
Disposals .....	(6.4)	(18.8)	(5.7)	—	(30.9)
Gross book values at 31 March 2003 .....	<u>33.1</u>	<u>6.9</u>	<u>16.1</u>	<u>—</u>	<u>56.1</u>

**Depreciation**

Accumulated depreciation at 1 April 2002 ....	5.9	32.5	1.1	—	39.5
Reclassification of assets .....	—	(11.6)	11.6	—	—
Disposals .....	(1.8)	(18.4)	(5.5)	—	(25.7)
Depreciation provided during period .....	0.4	1.2	1.3	—	2.9
Accumulated depreciation at 31 March 2003.	<u>4.5</u>	<u>3.7</u>	<u>8.5</u>	<u>—</u>	<u>16.7</u>
Net book values at 31 March 2003 .....	<u>28.6</u>	<u>3.2</u>	<u>7.6</u>	<u>—</u>	<u>39.4</u>
Net book values at 1 April 2002 .....	<u>28.1</u>	<u>7.5</u>	<u>1.7</u>	<u>—</u>	<u>37.3</u>

In the current period Ove Arup and Partners have 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.

Under depreciated replacement cost accounting for the railway network, the depreciation charge for any year is calculated using the average fixed asset net book value for the period and the estimated remaining 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 is primarily comprised of the discounted future cash flows expected to arise from the regulatory asset base).

As at 31 March 2003, the comparable amount of the railway network according to the historic cost convention is determined as £10,096m.

Included within land and buildings are amounts of:

	<b>Group</b>		<b>Authority</b>	
	<b>31 March 2003</b>		<b>31 March 2003</b>	
	<b>Gross book value</b>	<b>Net book value</b>	<b>Gross book value</b>	<b>Net book value</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Leasehold properties .....	8.3	5.4	8.3	5.4
Freehold properties .....	22.0	21.3	22.0	21.3
Short leasehold improvements .....	2.8	1.9	2.8	1.9
	<u>33.1</u>	<u>28.6</u>	<u>33.1</u>	<u>28.6</u>

The majority of heritable, freehold, feuhold and long leasehold investment properties were valued on 31 March 2003 by external qualified chartered surveyors, principally Weatherall Green & Smith, and Lambert Smith Hampton, 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.

The net book value of tangible fixed assets includes an amount of £42.6m in respect of assets held under finance leases and hire purchase contracts. Depreciation charged in the year on finance leases was £0.6m.

In the year to 31 March 2003 the IT equipment used by the British Transport Police has been reclassified into the IT equipment category from plant and equipment on the basis that this is a more accurate description of the asset types.

## 12 Intangible Fixed Assets

### (a) Concessions

	<b>Group</b>	<b>Authority</b>	<b>Group and Authority</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>	<b>31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
<b>Cost</b>			
At 1 April 2002 .....	—	—	—
Additions .....	26.6	—	—
At 31 March 2003 .....	<u>26.6</u>	<u>—</u>	<u>—</u>
<b>Accumulated amortisation</b>			
At 1 April 2002 .....	—	—	—
Charge for the year .....	1.0	—	—
At 31 March 2003 .....	<u>1.0</u>	<u>—</u>	<u>—</u>
<b>Net book value</b>			
At 31 March 2003 .....	<u>25.6</u>	<u>—</u>	<u>—</u>

On 6 November 2002 Network Rail (CTRL) Limited, a wholly owned subsidiary of Network Rail



acquired the St Pancras Concession Agreement and Railway Services Agreement for consideration of £26.6m.

The St Pancras Concession Agreement lasts until 29 July 2086 and is not being amortised given that the concession has not commenced. Under the Railway Services Agreement (RSA) services are provided up to completion and opening of section 2 of the CTRL planned for late 2006. The RSA is being amortised over the period to the end of 2006.

(b) **Goodwill**

On 3 October 2002 Network Rail became a quasi subsidiary of the SRA (see note 1). The following table sets out the identifiable assets and liabilities acquired and their fair value:

	<b>Book Value</b>	<b>Fair Value</b>
	<i>(£m)</i>	<i>(£m)</i>
Fixed Assets .....	10,704.0	10,704.0
Stocks .....	36.0	36.0
Debtors .....	1,391.0	858.5
Current Asset Investments .....	411.0	411.0
<b>Total Assets</b> .....	<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 .....	(806.0)	(806.0)
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>
<b>Goodwill</b> .....		107.5
Less: Amortisation .....		(2.1)
<b>Net book value of Goodwill at 31 March 2003</b> .....		<u><u>105.4</u></u>

Network Rail Ltd acquired Railtrack plc on 3 October 2003. On acquisition Network Rail Ltd carried out a fair value exercise of Railtrack's net assets. This acquisition was the trigger for the rights, powers and obligations as set out in note 1 to these accounts coming into place, and as described, at this point Network Rail Ltd became a quasi subsidiary on the SRA. A fair value exercise was carried out by the SRA of Network Rail Ltd's net assets.

The fair value of the assets is 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 Ltd to fund the acquisition of Railtrack plc.

## 13 Investments and Acquisitions

### Investments

(a) **Subsidiaries & Joint Ventures**

All the subsidiaries have an accounting year end of 31 March 2003.

The SRA has the following subsidiaries:

<b>Company Name</b>	<b>Activity</b>	<b>Issued Share Capital</b>	<b>Percentage Controlled by SRA</b>
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
Rail Property Limited .....	Dormant	1	100
Cross Channel Catering Limited.....	Dormant	100	100
British Rail Limited .....	Dormant	1	100
British Railways 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
Bridge Rail Limited .....	Dormant	1	100
Goldings Rail Limited .....	Dormant	1	100
Hays Rail Limited.....	Dormant	1	100
South Eastern Trains Limited .....	Dormant	2	100
SRA Investment Company Limited.....	Investment company	100	100
DoA Limited.....	Administers Deeds of Assumption	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 Ltd is a quasi subsidiary of the SRA (see note 1 and (b) below).

#### **Cross London Rail Links Ltd**

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 (v) the Group has drawn up its accounts in accordance with the requirements of FRS 9.

**(b) Acquisitions**

Network Rail became a quasi subsidiary on 3 October 2002 and the transactions and results of Network Rail Ltd are included in the consolidated financial statements of the SRA for the period ended 31 March 2003. From the period 3 October 2002 income of £942.4m, and an operating deficit of £204.7m are included in the consolidated Income and Expenditure Account as acquisitions. The acquisition method of accounting has been used.

A grant of £300m was paid to Network Rail to purchase the shares of Railtrack plc, and enable an early exit from railway administration. On acquisition the £300m was included as an investment in the accounts of the Authority. At 31 March 2003 the value of that investment was reviewed and has been impaired down to zero. The grant received from DfT to fund the payment was initially credited to the Capital Grant reserve. On impairment of the investment this has been written back to the Income and Expenditure Account.

**Summary Financial Statements for Network Rail**

Summary financial statements for Network Rail Ltd for the period to 31 March 2003 before consolidation adjustments are set out below.

**Profit and Loss Account**

	<b>Period ended 31 March 2003</b>
	<i>(£m)</i>
<b>Turnover</b> .....	1,443
<b>Operating loss</b> .....	(17)
Interest .....	(165)
Profit on the sale of properties .....	25
<b>Loss on ordinary activities before taxation</b> .....	(157)
Tax credit on loss on ordinary activities .....	41
<b>Loss for the period</b> .....	<u>(116)</u>

<b>Statement of Total Recognised Gains and Losses</b>	<b>Period ended 31 March 2003</b>
	<i>(£m)</i>
<b>Loss for the period</b> .....	(116)
Revaluation of the railway network .....	698
<b>Total recognised gains and losses for the period</b> .....	<u>582</u>

<b>Note of Historical Cost Profits and Losses</b>	<b>Period ended 31 March 2003</b>
	<i>(£m)</i>
Loss on ordinary activities before taxation .....	(157)
Additional depreciation charge on an historical cost basis .....	(726)
Reduction in profit on sale of properties on an historical cost basis .....	(3)
Historical cost loss on ordinary activities before taxation .....	<u>(886)</u>
<b>Historical cost loss for the period accumulated after taxation</b> .....	<u>(845)</u>

<b>Balance sheet</b>	<b>31 March 2003</b>	
	<i>(£m)</i>	<i>(£m)</i>
Tangible fixed assets .....	12,835	
Intangible fixed assets .....	25	
Negative goodwill .....	<u>(417)</u>	
<b>Total Fixed assets</b> .....		12,443
Stock .....	38	
Debtors .....	1,725	
Current asset investments .....	178	
Cash at bank and in hand .....	8	
<b>Total current assets</b> .....	<u>1,949</u>	
Creditors: Amounts falling due within one year .....	<u>(10,570)</u>	
<b>Net current liabilities</b> .....		<u>(8,621)</u>
<b>Total assets less current liabilities</b> .....		3,822
Creditors: Amounts falling due after more than one year .....	(2,468)	
Provisions .....	<u>(772)</u>	
<b>Net Assets</b> .....		<u>582</u>
	<i>(£m)</i>	<i>(£m)</i>
Revaluation reserve .....	698	
Profit and Loss Account .....	<u>(116)</u>	
<b>Capital and reserves</b> .....		<u>582</u>

## Cash Flow Statement

	Period ended 31 March 2003	
	(£m)	(£m)
<b>Net cash outflow from operating activities</b> .....		(14)
Net interest paid.....	(208)	
<b>Net cash outflow from returns on investments and servicing of finance</b> .....		(208)
<b>Capital expenditure and financial investment</b>		
Purchases of tangible fixed assets.....	(1,651)	
Sale of assets.....	27	
Capital receipts from leasing debtors.....	3	
Capital grants received.....	25	
<b>Net cash outflow from capital expenditure and financial investment</b> .....		(1,596)
<b>Acquisitions and Disposals</b> .....		(210)
Sale of short term Investments.....		233
<b>Financing</b>		
New loans.....	8,438	
Repayment of loans and leases .....	(6,635)	
<b>Net cash inflow from financing</b> .....		1,803
<b>Increase in cash and cash equivalents</b> .....		8

## 14 Stocks

	Group 2003	Authority 2003	Group and Authority 2002
	(£m)	(£m)	(£m)
Raw materials and consumables .....	24.8	—	—
Properties in the course of development .....	1.0	—	—
Long term contract balances:			
Net cost .....	18.0	—	—
Applicable payments on account.....	(6.0)	—	—
	37.8	—	—

## 15 Debtors

	Group 2003	Authority 2003	Group and Authority 2002
	(£m)	(£m)	(£m)
Trade debtors .....	385.6	33.4	65.4
Capital grants receivable.....	1.0	—	—
Other debtors .....	192.0	—	—
Prepayments and accrued income.....	243.8	171.2	226.9
Net investment in finance leases.....	7.0	—	—
Debtors falling due within one year.....	829.4	204.6	292.3
Debtors falling due after more than one year.....	85.1	56.3	55.1
	914.5	260.9	347.4

There are amounts due to the Authority from the franchisee in Scotland of £2.0m (2002 £2.4m) in relation to the franchise agreement.

Debtors of the Authority and the Group include prepayments and accrued income of £125.7m (2002 £182.9m) due from TOCs in respect of clause 18.1 of the franchise agreement (see note 3(a) and note 5).

Aggregate rentals receivable in respect of finance leases for the Authority and the Group were £51.2m, of which £50.9m is due after more than one year. Included within the £50.9m is £50.7m owed by Freightliner (1995) Ltd. £50.7m of the debt falls due between 2011 and 2016. Since its privatisation in 1996 Freightliner (1995) Ltd has required revenue funding support from government. No provision has been made against this debt.

## 16 Current asset investments

	<b>Group 2003</b>	<b>Authority 2003</b>	<b>Group and Authority 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Short term money market deposits.....	177.6	—	—

## 17 Non-operational property

BRB (Residuary) Ltd 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) Ltd 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 2003 66 properties (2002 62 properties) with a value of £64.9m (2002 £56.7m) 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, and which are held for their investment potential. These are all included as investment properties. Investment properties were valued on 31 March 2003 by external qualified chartered surveyors, CB Hillier Parker, 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

	<b>Group</b>	<b>Authority</b>	<b>Group and Authority</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>	<b>31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Opening Value 1 April 2002.....	137.1	137.1	113.5
Additions .....	70.7	—	—
Revaluation.....	12.3	12.3	32.8
Disposals .....	(16.9)	(16.9)	(9.2)
Closing Value 31 March 2003 .....	<u>203.2</u>	<u>132.5</u>	<u>137.1</u>
	<b>Investment Property</b>	<b>Current Assets</b>	<b>Total</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Opening Value 1 April 2002.....	80.4	56.7	137.1
Revaluation.....	0.3	12.0	12.3
Transfer from Investment Property.....	(13.1)	13.1	—
Disposals .....	—	(16.9)	(16.9)
<b>Authority – closing balance 31 March 2003</b> .....	<u>67.6</u>	<u>64.9</u>	<u>132.5</u>
Network Rail – additions .....	70.7	—	70.7
<b>Group - closing balance 31 March 2003</b>	<u><b>138.3</b></u>	<u><b>64.9</b></u>	<u><b>203.2</b></u>

## 18 Creditors

### (a) Creditors falling due within one year

	<b>Group 2003</b>	<b>Authority 2003</b>	<b>Group and Authority 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Bank loans and overdrafts .....	8,499.0	—	—
Receipts in advance .....	64.0	40.0	81.3
Trade creditors.....	713.1	25.1	20.9
Accruals and deferred income .....	1,357.6	217.7	158.8
Payroll, taxation and social security .....	9.6	9.2	4.4
Interest accrued on capital liabilities.....	134.8	2.8	1.0
Leasing liabilities.....	3.5	3.5	4.1
PTE Loans .....	15.0	15.0	15.0
Other.....	56.8	7.9	6.8
Capital grants deferred income.....	10.0	—	—
	<u>10,863.4</u>	<u>321.2</u>	<u>292.3</u>

There are amounts due to the Scottish Executive of £3.6m (2002 £nil), being the cash drawn down in excess of the cash payments to the franchisee in Scotland in the period. There are no amounts due to the franchisee in Scotland.

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. Receipts in advance within the Authority and the Group include the unamortised element of the contract premium paid by First North Western and the National Express Group in respect of ScotRail, Central and Gatwick franchises

(b) **Creditors falling due after more than one year**

	<b>Group 2003</b>	<b>Authority 2003</b>	<b>Group and Authority 2002</b>
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Bank Loan .....	1,440.0	—	—
PTE Loans .....	212.7	212.7	227.6
Leasing liabilities.....	105.7	64.7	68.9
Other accruals and deferred income.....	13.0	—	—
Capital grants deferred income .....	1,101.7	—	—
	<u>2,873.1</u>	<u>277.4</u>	<u>296.5</u>

(c) **Repayment of loans and leasing liabilities included above**

	<b>Group 31 March 2003</b>		<b>Authority 31 March 2003</b>	
	<b>Loans</b>	<b>Leases</b>	<b>Loans</b>	<b>Leases</b>
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Due for repayment in one year or less ..	8,514.0	3.5	15.0	3.5
Between one and two years .....	50.0	4.5	15.0	3.5
Between two and five years.....	908.0	11.9	45.0	9.9
In five years or more.....	694.7	89.3	152.7	51.3
	<u>10,166.7</u>	<u>109.2</u>	<u>227.7</u>	<u>68.2</u>

Group loans include a revolving credit facility for the purposes of working capital for Network Rail Ltd and Deeds of Assumption with PTEs which 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 was 5.125% (2002 6.125%).



## 19 Provisions for Liabilities and Charges

<b>Group</b>		<b>Provision Restated*</b>			<b>Revised</b>		<b>Provision</b>
	<b>Note</b>	<b>1 April 2002</b>	<b>Paid</b>	<b>Unwind Discount</b>	<b>Discount Rate</b>	<b>Charged/ (Released)</b>	<b>31 March 2003</b>
		<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Channel Tunnel.....	19(a)	76.1	(26.4)	2.9	3.5	(1.6)	54.5
Property .....	19(b)	85.1	(10.8)	4.2	3.7	16.8	99.0
Employee.....	19(c)	161.6	(9.0)	6.3	—	104.1	263.0
Business Sales and Other..	19(d)	17.4	(0.9)	0.8	0.4	(1.9)	15.8
Pension Obligations —							
Authority .....	10	7.9	(0.2)	0.2	—	2.7	10.6
Redundancy .....	19(e)	1.6	(0.5)	—	—	0.1	1.2
Deferred tax .....	24	—	—	—	—	453.0	453.0
Environmental liabilities...	19(f)	—	—	—	—	38.0	38.0
Pension Obligations –							
Network Rail .....	10	—	—	—	—	225.0	225.0
Other.....	19(g)	—	—	—	—	56.2	56.2
Network grant.....		481.4*	(492.4)	—	—	15.6	4.6
<b>Group</b> .....		<b>831.1</b>	<b>(540.2)</b>	<b>14.4</b>	<b>7.6</b>	<b>908.0</b>	<b>1,220.9</b>
<b>Authority</b>							
	<b>Note</b>	<b>Provision Restated*</b>			<b>Revised</b>		<b>Provision</b>
		<b>1 April 2002</b>	<b>Paid</b>	<b>Unwind Discount</b>	<b>Discount Rate</b>	<b>Charged/ (Released)</b>	<b>31 March 2003</b>
		<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Channel Tunnel.....	19(a)	76.1	(26.4)	2.9	3.5	(1.6)	54.5
Property .....	19(b)	85.1	(10.8)	4.2	3.7	16.8	99.0
Employee.....	19(c)	161.6	(9.0)	6.3	—	104.1	263.0
Business Sales and Other..	19(d)	17.4	(0.9)	0.8	0.4	(1.9)	15.8
Pension Obligations —							
Authority .....	10	7.9	(0.2)	0.2	—	2.7	10.6
Redundancy .....	19(e)	1.6	(0.5)	—	—	0.1	1.2
Network Grant .....	19(h)	481.4*	(492.4)	—	—	996.0	985.0
<b>Authority</b> .....		<b>831.1</b>	<b>(540.2)</b>	<b>14.4</b>	<b>7.6</b>	<b>1,116.2</b>	<b>1,429.1</b>

\* The provision balances as disclosed in the accounts for the year to 31 March 2002 were £349.7m for the Group and the Authority. These have been adjusted by a prior year adjustment as set out in note 28(a) relating to network grant of £481.4m bringing the restated opening balance to £831.1m

(a) **Channel Tunnel**

On 22 November 1997 the British Railways Board sold Railfreight Distribution (RfD) to East and West Railway Ltd, a wholly owned subsidiary of English Welsh and Scottish Railways Ltd. As part of the sale the British Railways Board gave the purchaser certain warranties and indemnities for which the provision totals £54.5m (31 March 2002 £76.1m) and which were transferred to BRB (Residuary) Ltd on 1 February 2001. This includes a commitment to meet the full cost of the minimum usage charge payable to Eurotunnel for access to the Channel Tunnel until April 2005, plus certain other future costs. 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) Ltd, includes a number of leased administration buildings with on-going contractual liabilities expiring at various dates between 2003 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) Ltd. 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 based on information available in February 2003. This reflects the increase in the frequency and cost of claims in recent years. In particular, the number of claims received in respect of asbestosis and mesothelioma has increased. These diseases have long gestation periods and do not generally emerge until at least 20 and possibly up to 50 years after exposure. Claims are forecast to be received until at least 2020 and, based on recent evidence, possibly until 2040. The employee provision as at 31 March 2003 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. 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 and the outsourcing of property estate management.

(f) **Environmental**

Network Rail Ltd 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.

(g) **Other**

Other provisions of £56.2m relate to provisions for known claims, or potential claims within Network Rail.

(h) **Network Grant**

The provision for network grant relates 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 Ltd (NRIL) relates to the period which commenced on 1 April 2001 and finishes on 31 March 2006. The grant is recognised in the Income and Expenditure Account in accordance with the statement of accounting policy (xvii). The grant is paid in accordance with the contractual agreements between the Authority and NRIL. A provision has been created for grant earned but not yet payable.

## 20 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 Ltd, Eurostar (UK) Limited and Railfreight Distribution Limited. Should any of these parties default, any outstanding obligations will fall in due course to the Authority.

As stated in note 19, the indemnities given to English Welsh & Scottish Railway in relation to the sale of Railfreight Distribution include a commitment to meet the full cost of the minimum usage charge payable to Eurotunnel for access to the Channel Tunnel until April 2005. For the period from April 2005 to the end of the minimum usage period in November 2006 BRB (Residuary) Limited is only liable if EWS cease the Channel Tunnel operations of Railfreight Distribution, for which BRB (Residuary) Limited has a contingent liability of £28m on a discounted basis

- (c) Negotiations are continuing on the West Coast Route modernisation (“WCRM”) project with a view to addressing the significant commercial risks surrounding the project, including any compensation payable for late delivery and the possible methods of settlement. Network Rail have recognised that there is a fundamental uncertainty surrounding this within their accounts. However, action taken by the SRA on the development and agreement of the WCRM Strategy and with rolling stock suppliers has reduced the level of uncertainty such that the fundamental uncertainty does not apply in the group accounts. The maximum liability has been assessed and it is considered that there is a fair likelihood that any settlement will not have a material impact. A more detailed disclosure of amount is not appropriate due to commercial sensitivity.
- (d) Following the accidents at Ladbroke Grove on 5 October 1999 and Potters Bar on 10 May 2002 there are on-going police and HSE enquiries. In the circumstances at Potters Bar where none of the various investigations underway have been able to identify the root cause of the incident, Network Rail have agreed, without prejudice to any issue of liability, to act on behalf of industry parties in handling and settling claims from members of the public arising from the incident. On 9 July 2003 Network Rail Infrastructure Ltd were charged with corporate manslaughter following the accident at Hatfield on 17 October 2000. The financial effects of this are not quantifiable.
- (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) Following the acquisition of Railtrack plc by Network Rail, the Rail Regulator commenced an interim review of the charging regime used by Network Rail Infrastructure Ltd (formerly Railtrack plc). This review is currently under way and will not conclude until December of this year. Any changes to track access charges arising from this review could have an effect on the Group’s position. Output from this review is a critical part of the Authority’s route map to 2004 project.
- (g) The Authority is involved in litigation with third parties. This includes an employment tribunal for a senior member of staff. The outcome of this is not known as is the quantification of any financial impact.

In addition, the Authority has the following contingent liabilities relating to group companies:

- (h) The Authority has issued a letter of comfort to Network Rail relating to the carrying out of work in respect of the upgrade to power supplies, platform extensions, train servicing facilities and other works carried out in conjunction with the programme to replace Mark 1 rolling stock.

Under the terms of this letter the Authority will underwrite the costs incurred by Network Rail in respect of work undertaken on the above projects, costs incurred under certain agreed contracts (the Framework Contracts), and costs incurred in procuring finance for the work.

In addition the Authority has undertaken to indemnify Network Rail for any amounts payable under the Framework Contracts on termination of the Framework Contracts following the earlier of (1) the aborting of the project by the Authority and (2) the expiry of the letter of comfort on 31 July 2003.

The maximum amount payable by the Authority to Network Rail under the terms of the letter is £200m exclusive of value added tax. It is currently not anticipated that this facility will be called upon.

- (i) The Authority has provided financial support to Network Rail in respect of the following credit facilities

- (1) A credit facility of £10bn together with related agreements, which in specified circumstances allow providers of finance to the Network Rail Group to recover amounts lent directly from the Authority. The Network Rail group has secured a £9bn credit facility with nine banks, each providing a £1bn commitment.
- (2) A credit facility of £4bn and related agreements (similar to those in (1) above) to enable third party bank borrowings to be raised to cover legacy costs.
- (3) A standby credit facility of £3bn for the overrun of legacy costs.
- (4) A standby credit facility of £4bn to act as a long-term contingency buffer.

With the exception of the long-term contingency buffer, the above facilities either expire, or are capable of extension such that they expire, in 2005. The long-term contingency buffer has a term of 50 years.

Of the £21bn facilities, the Network Rail group has entered into contracts with lenders for an amount of £14.1bn, which includes a commercial paper programme which has been issued since 31 March 2003 to provide the £4bn facility for legacy costs. It is not anticipated that any drawdowns will be made against the Authority relating to these facilities.

## **21 Post balance sheet events**

- (a) On 26 June 2003, the SRA gave notice to Connex that its franchise for the South Eastern routes would be terminated on 31 December 2003.

The SRA has a duty to ensure the continuity of services and section 30 of the Railways Act 1993 requires the SRA to step in if a franchise is terminated until the point at which a new franchisee is appointed.

The Connex franchise assets and appropriate liabilities and staff will be transferred to South Eastern Trains Ltd, an interim management company which is a subsidiary of the SRA. This company will be responsible for the operation of the South Eastern franchise until the point at which a new franchisee is appointed. The directors of the company will be two members of the SRA Executive.

The results of the franchise will be consolidated into the accounts of the SRA group for the financial year 2003/04.

The last filed accounts for the Connex franchise were for the 12-month period to 31 December 2001. In this period turnover was £365.8m, operating profit was £0.6m, and net assets were £10.9m.

This is a non-adjusting post balance sheet event.

- (b) On 22 June 2003, direct responsibility for the maintenance of the railway infrastructure for the Reading contract area was transferred from Amey Rail Ltd to Network Rail Infrastructure Ltd. A total of approximately 400 staff were transferred to Network Rail Infrastructure Ltd under the TUPE arrangements. Consideration for this transfer was de-minimis and the impact on Network Rail Infrastructure Ltd's balance sheet arising from the transfer is not material.

This is a non-adjusting post balance sheet event.

## **22 Contracted Commitment**

- (a) **Franchise agreement**

The Authority has entered into franchise agreements with 25 Train Operating Companies for the provision of train services. The amounts falling due in the year to 31 March 2004 are as follows:

(£m)

On franchise agreements expiring:	
Within one year.....	775.2
Between one and two years.....	31.9
Between two and five years.....	33.7
In five years or more.....	554.1
	<hr/>
	1,394.9
	<hr/>

An analysis of future commitments by TOC is shown in Appendix 3.

(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 2003 are £41.7m (2002 £78.5m)

(c) **Network Rail**

In accordance with the deed of grant and as disclosed in note 1, the Authority is committed to paying grants amounting to £4.0bn in forecast prices. Payments are forecast as £1.4bn for 2003/04, £1.3bn for 2004/05, £0.7bn for 2005/06 and £0.6bn for 2006/07

(d) **Other**

Capital expenditure commitments entered into but not provided in these accounts are £1,873.6m (2002 £0.6m).

## 23 Financial Instruments

(a) **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. As permitted by the Accounts Direction, the numerical disclosures in this note exclude short-term debtors and creditors. 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.

BRB (Residuary) Limited has a commitment to make regular payments of approximately 19 million euros (approximately £13m) per year to Eurotunnel until the end of the Minimum Usage Period (see note 19(a)). Hedging of foreign currency is not undertaken, as this is not permitted.

The fair value of all financial assets and liabilities approximates to book value.

(b) **Network Rail**

The Network Rail treasury operations are co-ordinated and managed in accordance with the policies and procedures approved by the Network Rail Board, subject to regular internal and external audits. Trades of a speculative nature are not undertaken.

The Network Rail Board has approved a counterparty list which contains the entities with whom it may invest cash and transact derivative business. Limits are set with reference to credit ratings supplied by Standard and Poor's Rating Service and Moody's Investors Service. These limits dictate how much and for how long Treasury may deal with each counterparty, and are designed to mitigate the concentration of credit risk. Network Rail holds a mixture of fixed and floating rate debt, and is exposed to upward movements in interest rates because it has floating rate debt in excess of floating rate assets. These are monitored on a regular basis.

There is a policy of hedging all identified foreign exchange exposures over £250,000 or equivalent 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:

	<b>Gains</b>	<b>Losses</b>	<b>Total net gains/(losses)</b>
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Unrecognised gains and losses on hedges at 1 April 2002 .....	—	—	—
Gains and losses arising in the current year that were not recognised in the current year .....	3	—	3
Unrecognised gains and losses on hedges at 31 March 2003 .....	<u>3</u>	<u>—</u>	<u>3</u>
Of which:			
Gains and losses expected to be recognised within one year .....	2	—	2
Gains and losses expected to be recognised after more than one year .....	1	—	1

**Facilities**

At 31 March 2003 Network Rail had the following committed facilities:

	<b>Drawn</b>	<b>Undrawn</b>	<b>Total</b>
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
£9 billion bridge facility .....	<u>8,438.0</u>	<u>562.0</u>	<u>9,000.0</u>

Undrawn committed borrowing facilities expire as follows:

	<b>2003</b>
	<u>(£m)</u>
Within one year .....	562.0
Within one to two years.....	4,000.0
In more than two years .....	3,000.0
	<u>7,562.0</u>

Not included in the above analysis are the £600m European Investment Bank and £250m Kreditanstalt für Wiederaufbau facilities as these were fully drawn as at 31 March 2003.

Network Rail has a £25m overdraft facility and a £25m money market line with HSBC Bank plc.

Network Rail has £13m of long term non-interest bearing financial liabilities for which the weighted average period to maturity is 1.5 years.

A comparison of current and book values of all Network Rail's financial instruments at 31 March 2003 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.

	<b>Book value</b>	<b>Fair value</b>
	<u>(£m)</u>	<u>(£m)</u>
<b>Assets/(liabilities)</b>		
Interest bearing financial assets.....	224	224
Debt securities and finance leases .....	(41)	(41)
Short term borrowings and current portion of long term debt .....	(8,449)	(8,449)
Long term borrowings .....	(1,440)	(1,443)
Long term non-interest bearing financial liabilities.....	(13)	(13)
Forward foreign currency contracts.....	<u>—</u>	<u>3</u>

(c) **Group Interest rate risk profile**

The interest rate profile of the Group's financial assets and liabilities as at 31 March 2003 is set out below. All balances are held in sterling:



	<b>Fixed Rate</b>	<b>Floating Rate</b>	<b>Total 31 March 2003</b>
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
<b>Financial Assets</b>			
<b>Authority</b>			
Cash at bank .....	—	14.5	14.5
Cash on deposit .....	—	0.3	0.3
Leasing assets .....	—	51.2	51.2
	<u>—</u>	<u>66.0</u>	<u>66.0</u>
<b>Network Rail</b> .....	<u>81.0</u>	<u>143.0</u>	<u>224.0</u>
<b>Group</b> .....	<u>81.0</u>	<u>209.0</u>	<u>290.0</u>

Cash on deposit at 31 March 2003 consists of cash on security deposit of £250,000. The weighted average interest rate for fixed rates assets is 5.94% with the weighted average time for which the rate is fixed being 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.

	<b>Fixed Rate</b>	<b>Floating Rate</b>	<b>Non Interest Bearing</b>	<b>Total 31 March 2003</b>
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
<b>Financial Liabilities</b>				
<b>Authority</b>				
Leasing liabilities (see note 18) .....	—	68.2	—	68.2
Loans from PTEs (see note 18) .....	—	227.7	—	227.7
Provisions for liabilities and charges (see note 19) .....	—	442.9	986.2	1,429.1
	<u>—</u>	<u>738.8</u>	<u>986.2</u>	<u>1,725.0</u>
<b>Network Rail</b> .....	<u>966.0</u>	<u>9,189.0</u>	<u>107.2</u>	<u>10,262.2</u>
<b>Group</b> .....	<u>966.0</u>	<u>9,927.8</u>	<u>1,093.4</u>	<u>11,987.2</u>

The weighted average interest rate for the Network Rail fixed rate borrowing is 5.9% with the weighted average time for which the rate is fixed 9.0 years.

The floating rate loans from PTEs bear interest rates based on the 12 month LIBOR.

The long-term non interest bearing financial liabilities have a weighted average period to maturity of 1.5 years.

Provisions within the Authority include 41.4m euros which have been converted into sterling at the rate of 1.5.

## 24 Deferred Taxation

The amounts on which there is a potential asset/(liability) for deferred taxation at the rate of 30% are as follows:

	<b>Group</b>	<b>Authority</b>	<b>Group and Authority</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>	<b>31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Accelerated capital allowances .....	959	—	—
Short term timing differences .....	(114)	—	—
Tax losses carried forward .....	(392)	—	—
Provision for deferred tax .....	453	—	—

The current rate of corporation tax of 30% (2001-02: 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:

	<b>Group</b>	<b>Authority</b>	<b>Group and Authority</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>	<b>31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Rolled over gains .....	184.0	—	—
Revaluation of assets .....	455.9	41.9	43.9
Deferred tax not provided .....	639.9	41.9	43.9

The £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 Ltd). 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 £455.9m. No provision has been made in respect of deferred taxation in relation to these gains as no liability is expected to arise.

## 25 Reserve movement

### (a) Revaluation reserve

	<u>Group</u>	<u>Authority</u>
	<b>31 March 2003</b>	<b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>
Balance at 1 April 2002.....	146.4	146.4
Network Rail revaluation .....	698.2	—
Revaluations.....	16.0	16.0
Disposals .....	(19.5)	(19.5)
Balance at 31 March 2003.....	<u>841.1</u>	<u>142.9</u>

### (b) Income and Expenditure reserve

	<u>Group</u>	<u>Authority</u>
	<b>31 March 2003</b>	<b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>
Balance at 1 April 2002.....	11.1	11.1
Prior year adjustment (note 28) .....	(481.4)	(481.4)
Balance at 1 April 2002 – restated.....	(470.3)	(470.3)
Transfer from revaluation reserve .....	19.5	19.5
Result for period.....	(544.9)	(768.1)
Balance at 31 March 2003.....	<u>(995.7)</u>	<u>(1,218.9)</u>

### (c) Revenue Grant reserve

	<u>Group</u>	<u>Authority</u>
	<b>31 March 2003</b>	<b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>
Balance at 1 April 2002.....	(562.4)	(562.4)
Grant income.....	62.5	62.5
Non cash items .....	(8.8)	(8.8)
Balance at 31 March 2003.....	<u>(508.7)</u>	<u>(508.7)</u>

(d) **Capital Grant reserve**

	<b>Group</b>	<b>Authority</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>
Balance at 1 April 2002.....	2.3	2.3
Fixed asset additions .....	2.8	2.8
Amortisation in period.....	(0.5)	(0.5)
Balance at 31 March 2003.....	<u>4.6</u>	<u>4.6</u>

**26 Reconciliation of movements in reserves**

	<b>Group</b>	<b>Authority</b>	<b>Group and Authority Restated</b>
	<b>31 March 2003</b>	<b>31 March 2003</b>	<b>31 March 2002</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Result for the year.....	(544.9)	(768.1)	(482.6)
Non cash item .....	(8.8)	(8.8)	—
Property revaluation.....	16.0	16.0	37.2
Acquisition of DOA Ltd .....	—	—	(180.1)
Grant income to Revenue Grant reserve .....	62.5	62.5	64.0
Grant income to provide for fixed asset purchases .....	2.8	2.8	1.8
Network Rail revaluation.....	698.2	—	—
Creation of opening balances.....	—	—	0.9
Amortisation of Capital Grant reserve .....	(0.5)	(0.5)	(0.4)
Net increase/(decrease) in reserves for the period .....	<u>225.3</u>	<u>(696.1)</u>	<u>(559.2)</u>
Opening reserves .....	(884.0)	(884.0)	(324.8)
Closing reserves.....	<u>(658.7)</u>	<u>(1,580.1)</u>	<u>(884.0)</u>

## 27 Cashflow

### (a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	<u>Group</u>	<u>Authority</u>	<u>Group and Authority Restated</u>
	<u>31 March 2003</u>	<u>31 March 2003</u>	<u>31 March 2002</u>
	(£m)	(£m)	(£m)
Operating deficit.....	(732.4)	(754.0)	(460.1)
Movement in Revenue Grant reserve .....	53.7	53.7	64.0
Movement in Capital Grant reserve.....	2.3	302.3	1.8
Depreciation and amortisation.....	225.0	2.9	4.9
Increase in stock .....	(1.8)	—	—
Decrease/(increase) in debtors.....	330.4	84.2	(247.8)
Decrease/(increase) in creditors and provisions .....	(80.1)	613.2	610.8
<b>Net cash (outflow)/inflow from operating activities.....</b>	<b>(202.9)</b>	<b>302.3</b>	<b>(26.4)</b>

### (b) Reconciliation of net cash flow to movement in net debt

	<u>Group</u>	<u>Authority</u>	<u>Group and Authority</u>
	<u>31 March 2003</u>	<u>31 March 2003</u>	<u>31 March 2002</u>
	(£m)	(£m)	(£m)
Decrease in cash on deposit.....	(12.0)	(12.0)	(40.2)
Decrease in other liquid resources.....	(233.0)	—	—
Increase in cash in the period .....	29.4	12.7	3.7
(Increase)/Decrease in debt .....	(1,789.0)	14.9	9.7
Decrease in leasing liabilities .....	5.8	4.8	5.0
Change in net debt resulting from cash flows.....	(1,998.8)	20.4	(21.8)
Non cash movement .....	(7,766.1)	—	(180.1)
Movement in net debt in the period.....	(9,764.9)	20.4	(201.9)
Net debt at 1 April 2002.....	(301.5)	(301.5)	(99.6)
<b>Net debt at 31 March 2003.....</b>	<b>(10,066.4)</b>	<b>(281.1)</b>	<b>(301.5)</b>

The non cash movement relates to the debt existing within Network Rail on 3 October 2002.

(c) **Analysis of Net Debt**

**Group**

	<b>31 March 2002</b>	<b>Cashflow</b>	<b>Non Cash Movements</b>	<b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Cash on deposit .....	12.3	(12.0)	—	0.3
Cash at bank and in hand.....	1.8	29.4	—	31.2
Debt due within 1 year .....	(15.0)	15.0	(8,514.0)	(8,514.0)
Debt due after 1 year .....	(227.6)	(1,804.0)	378.9	(1,652.7)
Leasing liabilities .....	(73.0)	5.8	(42.0)	(109.2)
Other liquid resources .....	—	(233.0)	411.0	178.0
<b>Total</b> .....	<b>(301.5)</b>	<b>(1,998.8)</b>	<b>(7,766.1)</b>	<b>(10,066.4)</b>

The non cash movements relate to the debt existing within Network Rail on 3 October 2002.

**Authority**

	<b>31 March 2002</b>	<b>Cashflow</b>	<b>Non Cash Movements</b>	<b>31 March 2003</b>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Cash on deposit .....	12.3	(12.0)	—	0.3
Cash at bank and in hand.....	1.8	12.7	—	14.5
Debt due within 1 year .....	(15.0)	14.9	(14.9)	(15.0)
Debt due after 1 year .....	(227.6)	—	14.9	(212.7)
Leasing liabilities .....	(73.0)	4.8	—	(68.2)
<b>Total</b> .....	<b>(301.5)</b>	<b>20.4</b>	<b>—</b>	<b>(281.1)</b>

**28 Prior Year Adjustments**

- (a) During the year Network Rail Ltd became a quasi subsidiary of the SRA (see note 1). The size and nature of this change resulted in a full review of accounting policies being undertaken to ensure that appropriate policies were in place for the group. The SRA Board decided that it was appropriate to amend the accounting policy on grants for the management and provision of railway network assets and also incentive regimes.

The policy on network grant changed from grant paid, which is the method previously adopted by the Authority to a policy which reflects the grant due in respect of each relevant period. This is in line with the Statement of Accounting Policies note (xvii).

This change in policy has been treated as a prior year adjustment in the accounts. The effect of this change is to increase the deficit in the year to 31 March 2002 from £1.2m to £482.6m and the creation of a new provision for network grant with a balance of £481.4m at 31 March 2002. As a result net liabilities at 31 March 2002 are £884.0m. There are no going concern issues. No other balances are affected by this change in policy.

The policy on incentive regimes has changed from all receipts being recognised within income irrespective of whether the franchise to which they relate paid a premium or received a subsidy. The revised policy requires receipts to be treated as an adjustment to the core franchise payment. Incentive receipts are therefore reflected in income where they are an adjustment to a franchise premium and as a reduction to expenditure where they are an adjustment to a franchise subsidy. There is no impact on the Income and Expenditure Account arising from this change.

- (b) The grant in aid arrangements between the SRA and DfT require that income received from property sales is repaid to DfT. In the accounts for the year ended 31 March 2002 these were netted off from the grant paid by DfT. These are now shown gross within the accounts, giving rise to a presentational change.

#### Group and Authority — Balance Sheet

	<b>Income and Expenditure Account</b>	<b>Provisions</b>	<b>Net Liabilities</b>	<b>Income and Expenditure Reserve</b>
	(£m)	(£m)	(£m)	(£m)
Balance at 1 April 2002 as disclosed.....	(1.2)	(349.7)	(402.6)	11.1
Prior Year Adjustment – Network Grant .....	(481.4)	(481.4)	(481.4)	(481.4)
1 April 2002 – restated .....	<u>(482.6)</u>	<u>(831.1)</u>	<u>(884.0)</u>	<u>(470.3)</u>

#### Group and Authority — Income and Expenditure Account

	<b>Trading Income</b>	<b>Government Grant</b>	<b>Operating Expenditure</b>
	(£m)	(£m)	(£m)
Position at 31 March 2002 as disclosed.....	485.9	1,671.9	(2,133.7)
Prior Year Adjustment – Network Grant .....	—	—	(481.4)
Prior Year Adjustment – Incentive Regimes .....	(273.5)	—	273.5
Prior Year Adjustment – Grant in Aid.....	—	15.4	(15.4)
<b>31 March 2002 – restated</b> .....	<u>212.4</u>	<u>1,687.3</u>	<u>(2,357.0)</u>

## 29 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 18(c)). Sir Robert Smith, a non Executive Director of Network Rail Ltd, is the Chairman on the Smith Report on Audit Committees.

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 (TOCs) and Freight Operating

Companies. The nature of these relationships are 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 Davis Gleave Limited, a company that 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 MD Strategic Planning is not involved in the firm's selection or appointment on any of the contracts entered into with the Authority. He also does not authorise any transactions entered into with Steer Davis Gleave Limited. In the period to 31 March 2003 Steer Davis Gleave Limited has provided services amounting to £470,637, and the balance outstanding at 31 March 2003 was £43,224.

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 Ltd, and during the year in his capacity as a director received £21k remuneration.

The SRA, through SRA Investment Company Ltd, holds a 50% share in Cross London Rail Links Ltd. Richard Bowker, Jim Steer and Doug Sutherland are all Directors of Cross London Rail Links Ltd. Transactions with CLRL are set out in note 13(a).

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 Ltd.

In addition to his remuneration as a non Executive Board Member, Lew Adams received remuneration of £7,000 for a project with DTI which is being fully funded by the DTI.



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