Network Rail

Annual Report and Accounts

Network Rail Limited

The parent company of Network Rail Infrastructure Limited

2003

Officers

Network Rail Limited

Directors

John Armitt
David Bailey
Jim Cornell
Iain Coucher
Peter Henderson
Ron Henderson
Charles Hoppe
Chris Leah
Ian McAllister
Adrian Montague
Ross Sayers
Sir Robert Smith

Secretary

Hazel Walker

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Financial Highlights

	Period from 22 March 2002 to 31 March 2003 £m
Turnover	**1,443**
Operating loss	**(17)**
Net interest payable	**(165)**
Loss before taxation	**(157)**
Net cash outflow from operating activities	**(14)**
Net debt	**(9,744)**
Railway network fixed assets	**12,764**
Net assets	**582**
Capital expenditure	**1,654**
Maintenance expenditure	**601**

Chairman's Statement

The last year has seen a major change in Britain's railways with Network Rail taking over the ownership of the infrastructure from Railtrack Group PLC. The change of ownership took place on 3rd October 2002 when Network Rail Limited acquired Railtrack PLC and subsequently renamed it as Network Rail Infrastructure Limited.

It is not possible to review the year without recalling the accident at Potters Bar on 10th May 2002. Whilst the root cause of the accident is still under investigation, no one at Network Rail underestimates the need to continue to strive to improve the safety of Britain's railways and John Armitt covers details of the accident in the Chief Executive's Review.

Network Rail has a different structure from Railtrack. It is a company limited by guarantee. The organisation is a 'not for dividend' company with Members rather than shareholders. The Company is run along commercial lines and any profit will be reinvested in the railway.

There are two categories of Members; Industry Members who are representatives of railway licence holders and Public Members, representatives of stakeholder groups and private individuals who are selected by an independent Membership Selection Panel. The role of our members is to hold the Board accountable for the stewardship of the Company and to act in support of the interests of Network Rail. In addition, the Board has adopted high standards of corporate governance equivalent to those of a major PLC.

Under Network Rail the focus of our business is clear; operations, maintenance and renewals. Our vision is one of engineering excellence, which will enable us to deliver a more reliable network with high levels of safety standards. The new executive team has settled in quickly and a series of major action plans has been put in place across all elements of the business to deliver the much needed step change to achieve our corporate goals.

The first requirement was to reorganise operations with the Regional Directors now reporting to the Deputy Chief Executive, Iain Coucher. This was implemented by 18 November 2002. In tandem, a common organisational structure is being introduced over all regions to ensure consistent activities focusing on improving performance. This has been a major change affecting approximately 8,000 people and is being implemented progressively with completion scheduled for mid-June 2003. In addition Area Groups within the regions will give better local control and accountability for work on the network. Responsibility for day-to-day delivery will now be placed squarely at area level under the control of General Managers.

The period since acquisition saw the company spending substantially more on maintenance and renewals than had been allowed for in the Rail Regulator's periodic review. The additional spending reflects a catching up of a backlog of much needed investment in the railway.

An important move was to take greater control over maintenance policies and the use of contractors. We have announced the introduction of a New Maintenance Programme whereby Network Rail will take back from the contractors the responsibility for deciding what has to be done, when it has to be done and ensuring it has been done. We have also decided to bring maintenance in-house in three contract areas which cover high-speed non-electrified track, third rail electrification and high-speed overhead line electrification. These were selected to give us a better understanding of the issues involved in maintenance, the costs involved and subsequently to enable us to become a better informed buyer of the services of maintenance contractors.

A key priority is to engage our employees who have to deliver our future plans. In late 2002 a series of road shows was held around the country where top management presented our vision to over 6,000 employees. The feedback from the road shows has been enormously helpful in understanding the magnitude of change ahead and learning from some of the mistakes from the past.

The period also saw the ordering of special trains to automate the inspection process, the ordering of high output grinders and ballast cleaners and the introduction of Integrated Planning Units to improve possession management.

In parallel with these activities we were also forging closer working links with our industry partners. Much of the period was spent working very closely with the Strategic Rail Authority (SRA) to redefine the West Coast Route Modernisation Project. The aim was to take a major project which had an undeliverable scope of works and burgeoning costs and turn it into a workable scheme at a deliverable cost. The publication of the West Coast Strategy and the decision to take multi-week possessions, whilst utilising diversionary routes, to speed up work all arose from these discussions.

The Office of the Rail Regulator, SRA and the train and freight operators were also very supportive of our new aims and objectives. The introduction of Joint Boards at which the Company, train and freight operators and our maintenance contractors address the challenges facing the network are an example of closer working to deliver a better performance to the travelling public.

Our Business Plan, launched on 31st March 2003 sets out the initiatives we are taking in all areas of our operations and covers our strategic direction for the next ten years with detailed plans for the next three years. The plan provides the basis for our discussion with the Rail Regulator on the Interim Review.

However, we must also be realistic about the challenges we face. Substantial growth on the network, allied to a history of under-investment, has left us with a fragile network which is expensive to put right. Improving performance and reducing total cost must be our focus, but we must also work with our contractors to make up the significant backlog in renewals.

During the period the first steps were taken to address the difficulties of the past. It will take several years, but our goal is to build a rail infrastructure which will demonstrate sustainable improvement in performance at an acceptable cost to the nation.

Ian McAllister (Chairman)
4 June 2003

Chief Executive's Review

Running the railway infrastructure is a complex business and there has been no let up in the desire and commitment of the people who ensure it works 24 hours a day, seven days a week, 365 days a year. The year has seen the business and its people continue to gain a better understanding of the realities we face and the many and varied changes which are needed in order to deliver real improvements at an efficient cost.

Uppermost in our minds is the tragic accident, which took place at Potters Bar on 10 May 2002 when a train was derailed and seven people died. It was soon apparent that the immediate cause was the failure of a set of points on the approach to the station. Checks across the rest of the network revealed no other points in comparable condition. The root cause of the incident remains the subject of a Health and Safety Executive investigation and British Transport Police enquiries.

In these circumstances, where none of the various investigations underway have been able to identify the root cause of the incident, the Group agreed, without prejudice to any issue of liability, to act on behalf of the industry parties in handling and settling claims from members of the public arising from the incident.

This incident once again brought home to everyone that a safe railway must continue to be our first priority.

In terms of performance it has been a mixed year with improvements in some areas overshadowed by deterioration in others, most notably train performance where an 9% increase on infrastructure attributable delays leaves us accountable for 55% of all train delays for the year to 31 March 2003. We must improve upon this performance and have outlined demanding but realistic targets and specific plans to achieve this.

We are currently meeting with our industry partners to find ways we can work together to make improvements. Over recent months there has been a new found co-operation between all parties that is enabling progress to be driven through the industry.

Improved efficiency is another area in which the industry needs to work together. There is only a limited amount of money available to deliver a better railway and if targets and commitments are to be kept we will have to make our resources go further.

In the last six months since the acquisition of Network Rail Infrastructure Limited we have been putting in place the foundations to enable us to deliver these efficiency savings. Over the next three years we anticipate that these organisational and engineering changes will deliver substantial savings that can be reinvested to improve the network.

Following our acquisition of Network Rail Infrastructure Limited, we have focused on organisational and cultural change, as these are the key drivers for the improvements in performance, cost and service to our customers.

In the last few months we introduced an employee engagement programme called Q12 organised by Gallup. This measures staff engagement levels and the style and nature of management throughout the business. The results will enable us to identify the management culture and training needed to ensure the maximum engagement and contribution from all our staff throughout the Company.

The executive directors held 12 road shows around the country to brief over 6,000 of our employees on Network Rail's vision and objectives for the future. We have also held a series of team building workshops for our 200 senior managers under the title - 'you make a difference'. The aim has been to engender ownership of Network Rail's vision, aims and values and create genuine understanding of, support for, and commitment to what we are trying to achieve with this core management team.

We have put in place a number of key organisational changes. For the first time the business has a standard structure for the organisation of the regions. This will ensure consistency of approach for ourselves and those who interface with us. It facilitates the drive to put in place common processes and procedures which will allow greater control and better delivery of our core business; operations, maintenance and renewals to the infrastructure.

Area Delivery Groups within these regimes will give better local control and accountability for work on the network.

In order to improve the interface between the major renewal activity on the West Coast and maintenance of the line we have put responsibility for both activities under a revised West Coast management unit.

The railway land assets and operational concerns, which include the stations under Network Rail control and the commercial and operational property portfolio, have been combined into a single Railway Estates department. This will ensure the Company maximises the opportunities presented by our extensive property interests, particularly at the 16 key stations whilst ensuring that the operation of the railway is not compromised.

Looking forward there is still much to be done. We are reviewing the role of all our support services and their interface with the Regions. It is important that we remove any duplication or unnecessary activity in order to improve work systems and accountability as well as to reduce costs and maximise efficiency.

Key areas such as safety, performance and asset stewardship are discussed in detail in my review contained in the Annual Report of Network Rail Infrastructure Limited (NRIL), our operating subsidiary. Understandably the trends and measures of our key operations are better explained in a full year commentary. Focusing solely on those matters and measures which have occurred since we acquired NRIL on 3 October 2002 would give an incomplete picture of the progress and performance of the network.

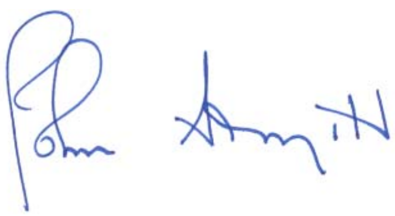
Conclusions

In the period, the Group has been transformed in ownership and structure. I welcome the newly appointed Members of Network Rail, as they join with us in our commitment to the nation's railway. It is early days for this new structure and I look forward to working together to build an open and constructive dialogue.

Of critical importance next year will be the satisfactory outcome to the Interim Review which will provide the financial foundation for the future health of the railway. We are working in close co-operation with the ORR and the SRA to ensure an open and transparent assessment can be made for our future needs.

The first steps have been taken to stabilise the core business of operations, maintenance and renewals. The challenges of the future have been clearly identified and plans are in place to meet them.

I would like to thank our dedicated and loyal employees who continue to give their commitment and support to the railway. With the determined hard work and skills of our people and our improving relationships with all our stakeholders, I am confident that we can deliver the safe and reliable railway the nation expects.



John Armitt (Chief Executive)
4 June 2003

Finance Director's Review

The period to 31 March 2003 saw the creation of Network Rail and the successful acquisition of Railtrack PLC and the UK railway network on 3 October 2002. The Group secured bridge finance and continues to develop a number of funding options to ensure the long term future of the UK railway network as outlined in the recently issued Network Rail Business Plan.

This Business Plan underlines the need for significant investment in the network. We recognise that these planned costs are unaffordable in the long term so we are working hard to bring costs down to the lowest possible level whilst maintaining our priority of a safe and reliable network.

Network Rail has made significant progress on a number key performance measures since the acquisition of Railtrack and it is acknowledged that significant future work remains to meet our targets.

At the time of writing significant uncertainty surrounds the West Coast Route Modernisation project ("WCRM"), further detail is given below.

This report should be read in conjunction with the Annual Report and Accounts of Network Rail Infrastructure Limited (formerly Railtrack PLC), the Group's major subsidiary company with responsibility for managing the UK railway network.

Financial performance

Network Rail acquired Railtrack PLC on 3 October 2002, therefore the results of the acquired entity are included within the financial statements of Network Rail from that date.

Network Rail's share of turnover for the period of £1,443million and operating costs of £1,460million resulted in an operating loss for the period of £17million. After profit on sale of properties of £25million and net interest payable of £165million, the Group recorded a loss before tax of £157million. After a credit for taxation of £41million, loss after tax was £116million.

Network Rail acquired £7.7billion of net debt with Railtrack PLC, which had increased to £9.7billion at 31 March 2003, a result of the significant investment the Group continues to make in the network through its maintenance, renewals and enhancement programmes.

All fixed assets are held by Network Rail Infrastructure Limited and further detail on the accounting for fixed assets is detailed in the financial statements of that company.

Net assets of the Group are £582million at 31 March 2003.

Acquisition of Railtrack PLC (now Network Rail Infrastructure Limited)

Network Rail purchased Railtrack PLC (now Network Rail Infrastructure Limited) on 3 October 2002 following the latter's discharge from Special Railway Administration through a combination of debt as above and a capital grant from the SRA of £300million.

An exercise to determine the fair value of the acquired assets and liabilities was performed and this resulted in an increase in the net assets of Railtrack PLC at acquisition from £537million to £935million. The purchase price of £510million resulted in negative goodwill of £425million on acquisition. This negative goodwill is to be amortised through the profit and loss account over the estimated average remaining useful economic life of the network of 25 years. The value of negative goodwill should be considered provisional in the context of the following paragraph concerning the West Coast Route Modernisation. Further detail on the fair value of the assets and liabilities acquired is contained in note 11. The Group has a further year in order to finalise these fair value calculations as permitted by FRS 7 ("Fair Values in Acquisition Accounting").

Fundamental uncertainty – West Coast Route Modernisation ("WCRM")

In preparing the financial statements the directors have considered a fundamental uncertainty relating to WCRM. During the period the Company continued to seek an agreement with Virgin Trains Limited ("Virgin"), the Strategic Rail Authority ("SRA") and the Office of the Rail Regulator on a revised contract and output specification in respect of WCRM. At the date of approval of the financial statements, the SRA has concluded its review of the optimal capacity utilisation of the West Coast Mainline and the infrastructure necessary to support this capacity, and published its West Coast strategy for consultation. However the ORR has still to review the SRA's proposals and consent to them.

There is a fundamental uncertainty as to the outcome of the ORR's review and it is not possible to quantify with any certainty the potential costs of any settlement with Virgin, or the extent to which they would need to be provided in the consolidated profit and loss account, consolidated balance sheet or Company balance sheet at 31 March 2003. In the opinion of the directors it would be seriously prejudicial for the Group to attempt to disclose any further information about the uncertainties or the potential financial effect of possible outcomes.

Changes in debt structure

A number of existing financial instruments held by Railtrack PLC at acquisition were replaced by a £9billion credit facility secured by Network Rail from a group of participating banks. The facility comprises a term loan and revolving credit facility. The term loan allowed the acquisition of Railtrack PLC, payment of premia connected with the redemption of existing financial instruments and refinancing the indebtedness of the Group. The revolving credit facility is for the working capital purposes of the Group and to finance interest payments due on the facility.

Future funding

Network Rail's immediate financing needs are met by a range of short-term facilities from commercial banks, finance lessors and international lenders totalling £10.4billion. Network Rail's core commercial financing will be completed over the coming months with a further £4billion of short-term facilities, likely to include a commercial paper programme, to meet Network Rail's working capital requirements through to implementation of the interim review in April 2004. This is in line with Network Rail's expectations when it took Railtrack PLC out of administration in October 2002.

Network Rail's commercial facilities benefit from a £21billion package of standby support loans from the SRA of which £7billion is undrawn standby support.

Over the next year, Network Rail expects to commence the process of refinancing its existing commercial facilities with long-term debt, including capital market issues. It also expects to continue working with the SRA to develop SPV financing for enhancements to the rail network.

Interim determination

The ORR is currently undertaking an ongoing interim review of Network Rail's revenue requirements. The ORR has published two consultation documents which outline its proposed approach to the review, and the proposed financial and incentive frameworks. Our first key cost submission as part of this review has been the publication of the 2003 Business Plan, which includes our expenditure projections for the next three years to 2005/06. We have also provided the ORR with our initial longer-term projections covering the period from 2006/07 to 2011/12. The interim review is now moving into its second phase, in which we will be working to identify further opportunities for improved efficiency, to improve the robustness of our 10 year business plan, to carry out analysis of alternative expenditure scenarios and to support the ORR in an intensive programme of review by consultants to enable them to reach conclusions on our expenditure needs

Treasury operations

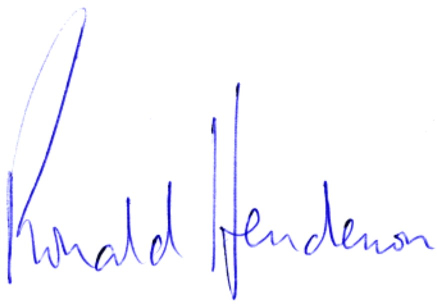
The Group's treasury operations are co-ordinated and managed in accordance with polices and procedures approved by the Board. Treasury is subject to regular internal audits and does not engage in trades of a speculative nature.

The major financial risks that the Group faces are its exposure to fluctuations in interest rates and its ability to raise finance to meet its investment programme. Treasury ensures sufficient liquidity is available to meet the Group's needs, while reducing financial risks and prudently maximising interest receivable on surplus cash.

An annual funding plan approved by the Board sets out in detail the Group's 12 months' financing requirements and in broad terms the requirement for the next 5 years. It explains the options available together with their strengths and weaknesses and a recommended strategy. Group policy is to ensure that there are sufficient committed bank facilities and short term investments to cover, as a minimum, the next 12 months' funding requirements.

Treasury has a Board approved counterparty list which contains the entities with whom it may invest cash and transact derivative business. Limits are set with reference to published credit ratings. These limits dictate how much and for how long Treasury may deal with each counterparty and are monitored on a regular basis.

The Group's primary liquidity is provided by committed bank facilities. At 31 March 2003, the Group has £7.6billion in undrawn committed facilities.



Ron Henderson (Finance Director)
4 June 2003

Directors' Report

Principal activities

Network Rail Limited is the ultimate parent company of the group that includes Network Rail Infrastructure Limited, its principal operating company. Network Rail Infrastructure Limited is responsible for the management of the national rail infrastructure. Its main activities are:

- Providing train operators with railway track access;
- Maintaining and renewing the infrastructure and undertaking major capital programmes; and
- Managing train timetabling, train planning and signalling.

Business review

22 March 2002	The Company was formed.
1 October 2002	The High Court ordered that Network Rail Infrastructure Limited be discharged from Special Railway Administration.
3 October 2002	Network Rail Holdco Limited, a wholly owned subsidiary of the Company purchased the entire share capital of Railtrack PLC from Railtrack Group PLC for consideration of £500million (excluding acquisition expenses of £10million).
3 February 2003	Railtrack PLC changed its name to Network Rail Infrastructure Limited and reregistered as a private limited company.

Details of the Group's business activities, key events and changes during the year and likely future developments are contained in the Chairman's Statement and the Chief Executive's and Finance Director's Reviews. This report should also be read in conjunction with the Directors' Remuneration report and the Corporate Governance Report.

Whilst not required by law or regulation, the Company has undertaken to comply, so far as it is practical having regard to its corporate structure, with the principles of good governance and the code of best practice under, or approved for the purposes of, the listing rules of the Financial Services Authority. As such it is publishing this Report and Accounts.

Results

The loss before tax was £157 million and the loss after a taxation credit of £ 41 million was £116 million.

Corporate structure and members

As a company limited by guarantee, the Company has no share capital and does not have shareholders, but has members. The role of members will be similar to that of shareholders in a public limited company. In particular, members of Network Rail will have an important role in ensuring that Network Rail is managed in line with high standards of corporate governance.

Members of the Company have a liability to contribute the sum of £1 each in the event of the winding up of the Company in circumstances where it cannot meet its debts in full.

Network Rail has two general classes of member: Industry Members and Public Members. In addition, the Strategic Rail Authority is a member of Network Rail. There are currently 116 members in total.

Industry Members and Public Members have the same voting and other rights, subject to certain differences which are contained within Network Rail's Articles of Association. These differences relate, in particular, to the procedures for application and appointment to membership and the duration of membership.

The Strategic Rail Authority (SRA)

The SRA formally came into being on 1 February 2001, following the passage of the Transport Act 2000. As well as providing overall strategic direction for Britain's railway industry, the SRA has responsibility for consumer protection matters, administering freight grants and steering forward investment projects. It is also responsible for letting and managing passenger rail franchises. The SRA is a member of Network Rail and has certain special membership rights, under Network Rail's Articles of Association. The SRA is also a provider of financing facilities to the Network Rail group and has certain rights in that capacity, including rights to interest and repayment.

Industry Members

Any Eligible Industry Stakeholder (as defined below) may apply to be a member of Network Rail and, subject to compliance with the application procedures described in the Membership Policy, shall be an Industry Member. Eligible Industry Stakeholders are not eligible to apply for Public Membership. If there is more than one Eligible Industry Stakeholder in any corporate group, then only one of those Eligible Industry Stakeholders will be entitled to Industry Membership.

"Eligible Industry Stakeholders" comprise the following three categories:

- any person (other than Network Rail or a subsidiary of Network Rail) who (a) is authorised by a licence to be the operator of railway assets pursuant to Section 8 of the Railways Act 1993 and (b) is operating such assets in Great Britain by virtue of such licence;
- any person (other than Network Rail or a subsidiary of Network Rail or a person who is eligible under paragraph 1 above) who is a railway undertaking (as such term is defined in Council Directive 95/18/EC of 19 June 1995 (as amended)) who (a) is authorised by virtue of a licence issued by a Member State of the European Union to provide services for the transport of goods and/or passengers by rail and (b) is providing such services in Great Britain by virtue of such licence; and
- any person who is the bidder announced by or on behalf of the SRA as the preferred bidder for a franchise to provide services for the carriage of passengers by rail in Great Britain (provided that any such person shall cease to be eligible under this category upon ceasing to be such a preferred bidder (whether as a result of the franchise being granted or the termination of the bidding process or otherwise)).

Public Members

Public Members are organisations and individuals drawn from a cross-section of the community and representing the wider public interest. The initial Public Members were appointed by the Board, following a process of selection and recommendation by an independent Membership Selection Panel.

Health and Safety

The health and safety of both the Group's employees, whilst working within the business, and the public whilst travelling on the rail infrastructure, is of great importance to the Company. The Group's policies and procedures relating to health and safety at work recognise the requirements of current legislation and are kept under constant review to ensure a safe working environment for all employees. Significant resource is committed to safety, health and environmental matters and the Company aspires to continuing improvement of its performance in the areas of health, safety and the environment.

Research and development

During the year the Group charged to the profit and loss account £5 million on research and development. Other costs relating to significant development work have been capitalised in tangible fixed assets.

Directors and their interests

The present directors and brief biographical details can be found on pages 14 and 15. All the directors of the Company were appointed on the following dates:

Current Directors

Name	Position	Date of Appointment
Ian McAllister	Chairman	22 March 2002
Adrian Montague	Deputy Chairman	22 March 2002
John Armitt	Chief Executive	3 October 2002
Iain Coucher	Deputy Chief Executive	22 March 2002
Peter Henderson	Projects & Engineering Director	1 October 2002
Ron Henderson	Group Finance Director	12 August 2002
Chris Leah	Safety & Compliance Director	3 October 2002
David Bailey	Non-executive director	15 August 2002
Jim Cornell	Non-executive director	3 October 2002
Charles Hoppe	Non-executive director	1 August 2002
Ross Sayers	Non-executive director	1 August 2002
Robert Smith	Non-executive director	1 August 2002

There were no other changes to the Board during the year.

Directors' interests

Being a company limited by guarantee the directors have no interests in the Company.

Equal opportunities and employee involvement

Network Rail recognises the role of its employees in enabling the Group to achieve its business objectives. This is reflected in the Board's commitment to equal opportunities and effective employee communications.

A survey was conducted by the Gallup organisation, commissioned by the Company, of employee engagement within the Group, involving the response by employees to a questionnaire in February and March 2003. A programme of communication of the results of the survey and training to improve employee engagement has been implemented. Another survey will be conducted in November 2003 with further surveys planned for subsequent years to monitor improvement in employee engagement.

Effective communication with employees is important. The Group uses, therefore, a wide range of communications media - from local briefings, videos, our company newspaper, electronic data links and staff briefing roadshows by the Directors - to reach all our employees. Consultation on issues affecting the workforce also takes place at regular intervals through both national and local procedures with representatives from the Company and trade unions.

Our equal opportunities policy is communicated to all employees. We are committed to offering our employees a fulfilling and challenging career in an environment free from discrimination, harassment, victimisation and bullying.

The Group is working with trade unions in the area of equality of opportunity and development of policy to promote best practice within the business. It is also a member of the Employers Forums on Age and Disability.

Employee review processes are implemented to allow every individual manager to discuss key performance issues in a structured, fair and consistent way and which identifies training and development needs.

Contributions for political and charitable purposes

During the period, the Company donated £393,000 to charitable organisations. A further £130,000 was used to sponsor charitable and community related activities. No political donations were made in the period.

Creditors payment policy

It is our policy, with respect to payment of our suppliers, to settle the terms of payment when agreeing the terms of each transaction where standard terms are not used; to ensure that suppliers are made aware of the terms of payment; and to abide by the terms of payment.

At 31 March 2003 the Group's creditor days compared to the value of suppliers' invoices received in the period was 43.

Auditors

At the Annual General Meeting of the Company, which will be held on 23 July 2003, a resolution will be proposed to reappoint Deloitte & Touche as the Company's auditors and to authorise the directors to fix their remuneration. Details of the fees earned by Deloitte & Touche during the period, for both audit and non-audit work, are set out in note 5 on page 46.

By order of the Board

H L Walker

Hazel Walker (Secretary)
4 June 2003

Board of Directors

John Armitt CBE, Chief Executive (3, 5 & 6) *

John Armitt, 57, is the Chief Executive of Network Rail having previously been appointed Chief Executive of Railtrack PLC after it was put into administration.

A civil engineer by training, he was previously Chief Executive of Costain Group plc, and before that Chief Executive of Union Railways.

David Bailey OBE, Non-Executive Director (1, 2, 4 & 6) *

David Bailey, 63, is the Strategic Rail Authority's non-executive Director on the Network Rail Board. With a procurement and logistics management background, he is the former Commercial Director for London Transport, having previously held various Director level roles within London Underground.

Jim Cornell, Non-Executive Director (2, 4 & 6) *

Jim Cornell, 63, was previously Group Managing Director, Infrastructure Services, British Rail.

Iain Coucher, Deputy Chief Executive (3 & 5) *

Iain Coucher, 41, is Deputy Chief Executive with responsibility for all operational matters. Previously, he was Chief Executive of Tube Lines, one of the preferred bidders for the London Underground PPP. For sixteen years, he worked for EDS, and for three years was seconded to TranSys as Chief Executive.

Chris Leah, Safety and Compliance Director (3) *

Chris Leah, 55, is responsible for safety, health and environmental management, having previously served as Railtrack Director, Operations from 1998. He has been on the board of the Company since 1998 and acted as the Director, North West Zone, between 1994 and 1997.

Peter Henderson, Projects & Engineering Director (3 & 5) *

Peter Henderson, 49, is Network Rail's Projects & Engineering Director, Peter has over 20 years rail experience, most recently at Bechtel where he was Projects Director Rail, which included responsibility for engineering. He spent sixteen years with the Hong Kong Mass Transit Railway Corporation, latterly as Head of Major Projects.

Ronald Henderson, Group Finance Director (3 & 5) *

Ronald Henderson, 57, the Group Finance Director, was formerly Group Finance Director of BICC plc, Finance Director of Balfour Beatty, and most recently Chief Executive of Tuberail.

Charles Hoppe, Non- Executive Director (2 & 6) *

Charles Hoppe, 68, is the former Vice President, Operations and Facilities Planning, United States Railway Association, Senior Vice President of Booz, Allen & Hamilton's worldwide rail consulting practice, and President of the Long Island Rail Road.

Ian McAllister CBE, Chairman (2 & 4) *

Ian McAllister, 59, is the Company's non-executive Chairman having previously been Chairman and Managing Director of Ford Motor Company Limited. Ian is also Chairman of the Carbon Trust, Deputy Chairman of the Qualifications and Curriculum Authority and senior non–executive Director of Scottish & Newcastle plc.

Adrian Montague CBE, Deputy Chairman (1, 2, & 5) *

Adrian Montague, 55, is Network Rail's Deputy Chairman – a non-executive role. He is Chairman of British Energy plc and Michael Page International and a senior advisor at Societe Generale.

Ross Sayers, Non-Executive Director (1, 2 & 6) *

Ross Sayers, 61, is a former Chairman and Chief Executive of New Zealand Railways Corporation and previously Chairman and Chief Executive of the State Rail Authority of New South Wales, Australia, and currently, Chairman of Associated British Ports Holdings plc.

Sir Robert Smith, Non Executive Director (1 & 2) *

Sir Robert Smith, 58, is currently Chairman of Weir Group plc and former Vice Chairman Deutsche Asset Management, Chief Executive Morgan Grenfell Asset Management and Chief Executive of Morgan Grenfell Private Equity.

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* Numbers against directors' names indicate the committees of the Board on which each of them serve, as follows:

1. Audit Committee
2. Remuneration Committee
3. Executive Committee
4. Nomination Committee
5. Property Board
6. Safety Health & Environment Committee

Directors' Remuneration Report

The Directors' Remuneration Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("the Regulations") which introduced new statutory requirements for the disclosure of directors' remuneration for listed companies in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. The Regulations require certain information shown in this report to be subject to audit. Accordingly, the table of Directors' emoluments and the information in respect of pension benefits have been audited, as referred to in the Independent Auditors' Report on pages 36 and 36. All other information in this report is unaudited.

The Remuneration Committee

The Committee of the Boards of both the Company and Network Rail Infrastructure Limited comprises entirely of both the Companies' non-executive directors, namely:

- Sir Robert Smith – Chairman
- David Bailey
- Jim Cornell
- Charles Hoppe
- Ian McAllister
- Adrian Montague
- Ross Sayers

The Committee will meet at least three times a year and since being formed as a committee of the Board in October 2002 (in the period to 31 March 2003) it met 6 times due to the need to consider a large number of significant remuneration matters. The Group Company Secretary is the secretary to the Committee.

The Committee is responsible for determining all matters concerning the remuneration and incentivisation of the executive directors of the Company. This includes making decisions in respect of the framework of the executive directors' remuneration and its cost and determining, on behalf of the Board, specific remuneration packages for each of the executive directors and, with the abstention from voting respectively by the Chairman and Deputy Chairman, the remuneration packages for each of the Chairman and Deputy Chairman. It also decides upon the form and content of the executive directors' management incentive plan for each financial year.

Additionally the Committee determines the framework of certain senior executive employees' remuneration as well as the form and content of their management incentive plan for each financial year.

After the establishment of the Committee upon the acquisition of Railtrack PLC in October 2002, the Committee reviewed the total remuneration packages of executive directors and senior executive employees with advice from Deloitte & Touche's compensation consultancy division having been commissioned by the Committee: in particular Deloitte & Touche conducted a benchmarking process of basic salaries. Also the Committee reviewed the policies on other elements of the remuneration package with further assistance from Deloitte & Touche.

Following a decision by the Audit Committee that Deloitte & Touche as the Company's auditors should not be engaged by the Company to perform work other than audit or tax services and such other services as the Audit Committee approve, the Committee commissioned consultants, New Bridge Street, to advise on the draft management incentive plan for 2003/04.

Service contracts for the executive directors were prepared on behalf of the Committee by the Group Company Secretary with advice and drafting of terms by solicitors, Linklaters, commissioned by the Group Company Secretary on behalf of the Committee for this purpose.

Executive Directors' Remuneration Policy

Network Rail's remuneration strategy is to create the potential to reward outstanding performance at a competitive market rate when compared to the market place based on individual contribution and the overall success of Network Rail in meeting the objectives of the Business Plan.

The objectives of the Network Rail remuneration policy are to:

- Ensure that performance is based on competitive practice in the markets where Network Rail needs to attract competent individuals;
- Enable Network Rail to recruit, retain and motivate individuals with the right skills, knowledge, experience and competencies;
- Have the potential to reward individuals at a competitive market rate based on individual performance and the overall success of Network Rail;
- Establish a total remuneration approach, defined as the sum of base salary, incentives and benefits;
- Clearly identify the levels of remuneration awarded for comparable roles in the market;
- Be responsive to external market demands, as the comparator group for roles will vary according to the sectors and specialist skills Network Rail needs to acquire;
- Use variable pay through the availability of incentives to form a significant part of total remuneration to ensure that each individual's reward is clearly linked to the successful delivery of Company objectives.

Account is taken of information, from internal and independent sources, on the remuneration for comparable positions in a wide range of FTSE 350 companies. The strategy for executive directors' pay is for basic salaries to reflect the relevant market median, for benefits such as car allowance and medical insurance to reflect market practice, for pensions to reflect the rail industry practice and for total direct compensation (i.e. basic salary and incentives) to be competitive in the appropriate market place, provided that performance justifies the amount. This strategy is consistent with the Company's belief that performance should determine a sizeable proportion of the total remuneration package for executive directors.

The executive directors of the Company are also the executive directors of Network Rail Infrastructure Limited and their contractual service agreements are with that company. No other contractual provisions or remuneration arrangements exist in relation to their directorships of Network Rail Limited or any other company within the Network Rail Group. For the purpose of this remuneration report, therefore, the provisions of the remuneration report contained in the Report and Accounts of Network Rail Infrastructure Limited for 2002/03 have been reflected below so far as they are applicable.

Reward Package

The current package for executive directors under their service agreements with Network Rail Infrastructure Limited comprises the following elements:

Basic Pay

The aim is to ensure that salaries are competitively set in relation to similar jobs in appropriate companies within the FTSE 350.

Current salaries for the executive directors, following the most recent salary review in November 2002 are:

Executive Director	Salary
John Armitt	£450,000
Iain Coucher	£400,000
Peter Henderson	£300,000
Ron Henderson	£300,000
Chris Leah	£300,000

Annual Incentive

Network Rail Infrastructure Limited has a network licence condition to introduce an incentive plan. For 2002/03 Network Rail established an Interim Management Incentive Plan (MIP) in respect of the period from 3 October 2002 to 31 March 2003. The MIP applied to all executive directors of the Company and certain senior executives who joined Network Rail Infrastrucutre Limited in October 2002. Details of the MIP were published in March 2003. The existing Railtrack senior incentive scheme continued to apply to existing Railtrack senior executives (other than directors).

2002/03 Management Incentive Plan

Principal Terms

The overriding purpose of the MIP was to create the potential to reward outstanding performance based on individual contribution and the overall success of Network Rail in meeting the objectives of the Business Plan.

The MIP comprised the following two key elements:

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

MIP Performance Criteria

Participants were eligible to receive bonuses based on demanding business and personal performance measures, no bonus being payable if Network Rail failed to reach the minimum performance level under the Business Performance Plan. Furthermore, the Committee could reduce incentive payments to take account of safety factors or other issues.

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

MIP Business Performance Measures

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

- *Public performance (weight 25%)* - this is the percentage of trains arriving on time over the twelve months to 31 March 2003 as published in National Rail Trends. "On time" is defined as running as planned and arriving less than 5 minutes late at final destination or less than 10 minutes late for inter-city operators.
- *Passenger capability (weight 10%)* - this is a volume based measure dependant on the growth in actual passenger train miles and passenger train operators' revenue from fares as reflected in the Regulator's volume incentive.
- *Freight capability (weight 10%)* - this is a volume based measure dependant on the growth in freight train miles and tonne miles as reflected in the Regulator's volume incentive.
- *Financial efficiency (weight 30%)* - this is a measure of the efficiency of operations, maintenance, track renewals and other key central expenditure.
- *Asset stewardship (weight 25%)* – this is an index which reflects the overall status of a number of contributory indicators of the condition of the network (including the number of Broken Rails, Level 2 Exceedences, Number of Signalling Failures, Poor Track Geometry, Traction Power Component Failures and Station Condition).

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

MIP Personal Performance Measures

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

- *Employee engagement (weight 20%)*
  A measure of the level of employee engagement with the business of Network Rail across all business areas (good levels of employee engagement are reflected in improved retention of employees, business unit productivity, profitability, customer service and safety performance).
- *Two Departmental Key Performance Indicators (KPIs) (weight 20% each)*
  Business Unit objectives have been set for each executive using the most appropriate KPIs. For example, the Chief Executive and Deputy Chief Executive are incentivised to reduce the level of Network Rail-caused train delays.
- *Financial measure (weight 20%)*
  Targets in respect of Business Unit Financial Measures have been assigned to each executive.
- *Individual assignments (weight 20%)*
  Objectives in respect of individual assignments have been set based on the delivery of Action Plans designed to transform Network Rail.

MIP Potential Entitlement

For each measure, the target level of performance was based on assumptions that were discussed between SRA and Network Rail based on available information prior to the acquisition of Railtrack. They were intended to reflect stretch targets for the level of performance that might be achieved in the short term. The potential entitlement if these targets were met was 40% of basic salary. In each case a minimum level of performance was set below which no incentive payment would be made and a maximum level of performance was set above which no further incentive payment would be made. In the event that the very highest levels of performance are attained, the maximum possible entitlement was 80% of basic salary. The remuneration potential was benchmarked against external comparable organisations.

MIP Award

Whilst incentive plan awards will be made to existing senior executives (other than executive directors) under the Railtrack incentive plan for 2002/03 that was in place at the time of acquisition of that Company, the Committee has determined that it would be inappropriate to make awards under the MIP for 2002/03 to any of the executive directors due to the relatively poor train performance even though other targets within the MIP were achieved.

2003/04 Management Incentive Plan

The terms of the incentive arrangements for 2003/04 are as follows:

MIP Principal Terms

The purpose of the MIP for 2003/04 and beyond is to create the potential to reward outstanding performance based on individual contribution and the overall success of Network Rail in meeting the objectives of the Business Plan. The plan will include annual and long term elements to ensure that the incentive regime applies to the operation of the business and the future requirements of the business. At this time the Committee have determined the annual elements of the incentive plan for 2003/04. The long term element of the plan will be developed during the current financial year and will be formed as greater clarity is gained of the long term requirements for the business as part of the Regulator's Interim Review process.

MIP Performance Criteria

Participants are eligible to receive bonuses based on demanding business performance measures. The 2003/04 MIP uses the KPIs from the 2003/04 Business Plan as objectives with the provision for an override based on the net debt of the business. Importantly, no bonus is payable if Network Rail Infrastructure Limited fails to reach the minimum performance level under the Business Performance Plan. Furthermore, the Committee may reduce incentive payments to take account of safety factors or issues.

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

MIP Business Performance Measures

The business performance measures are detailed below. The amount payable is calculated by reference to performance against the following output measures:

- Public performance (weight one third) - this is the percentage of trains arriving on time over the twelve months to 31 March 2004 as published in National Rail Trends. "On time" is defined as running as planned and arriving less than 5 minutes late at final destination or less than 10 minutes late for inter-city operators.
- Financial efficiency (weight one third) - this is a measure of the efficiency of operations, maintenance, track renewals and other key central expenditure.
- Asset stewardship (weight one third) – this is an index which reflects the overall status of a number of contributory indicators of the condition of the network (including the number of Broken Rails, Level 2 Exceedences, Number of Signalling Failures, Poor Track Geometry, Traction Power component Failures and Station Condition).

The outputs set out in the 2003/04 Business Plan need to be achieved as a threshold for bonus payments. The maximum bonus can be earned by delivering the 2004/05 business plan one year early.

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

The Committee has considered whether to set individual performance measures for the directors for 2003/04. It concluded that, in view of the collective accountability of the directors and the need to establish the stability of the organisation, it would not be appropriate to do so this year for executive directors. Other senior executives will have individual performance measures.

MIP Potential Entitlement

The potential bonus entitlement if the threshold target is achieved is 18% of basic salary. In the event that the very highest levels of performance are attained, the maximum possible entitlement is 60% of basic salary. The remuneration potential has been benchmarked against external benchmarks for comparable organisations.

Long-term Incentive

Given that the Company is a company limited by guarantee it is not possible to use traditional long-term incentives such as share options due to the absence of shares as the reward method. The Committee formed the view, therefore, that time needed to be taken for consideration of what is appropriate in place of shares. As such there were no long-term incentives for the year 2002/03.

Equally there are currently no long-term incentives in place for 2003/04 as the Committee considers that in order for an effective long-term scheme to be introduced any decision on this matter will need to reflect the outcome of the Rail Regulator's Interim Review later this year.

It is the intention of the Committee, therefore, to develop long-term incentives after further consideration to be given during 2003 as to how this is best achieved. These incentives will be based on relevant long-term improvement in business performance that are challenging and appropriate at the time. Further the targets will reflect the business plan, sponsor requirements and the funding determined by the Rail Regulator's Interim Review. The incentives are likely to be deferred cash payments with awards if payable made after each complete three year period. The long-term incentive targets developed will then be applied retrospectively to cover the three year period from the start of the 2003/04 financial year until the end of the 2005/06 financial year.

Regulatory MIP Statement

In compliance with Network Rail Infrastructure Limited's network licence requirement a statement was published by the Committee in March 2003 detailing the contents of the executive directors' Management Incentive Plan for 2002/2003. A statement for the Management Incentive Plan for 2003/2004 will also be published in June 2003.

Executive Directors' Service Agreements

All the executive directors have since entered into new service agreements with Network Rail Infrastructure Limited following acquisition of that company effective from 3 October 2002. In drawing up these agreements the Committee took into account as many as possible of the provisions of the UK listing authority's corporate governance code and the recommendations contained within the joint statement of the Association of British Insurers and the National Association of Pension Funds statement of best practice on executive contracts and severance published in December 2002.

All the executive directors' agreements provide for notice periods from Network Rail Infrastructure Limited of no greater than one year, to reflect current corporate governance best practice. Executive directors are required to give that company not less than six months' notice if they wish to leave.

Taking the principles contained within current corporate governance best practice relating to compensation in the event of early termination of a director's service agreement, each such agreement also contains an express provision requiring the departing director to exercise their duty to mitigate their loss. Network Rail will have regard to that duty and contractual requirement on a case by case basis when assessing the appropriate level of compensation which may be payable, including using phased payments of such compensation.

The Chief Executive's service agreement and the letter of appointment of the Chairman also contain provisions for the termination of their appointments without compensation upon the occurrence of certain significant financial failures of the Group unless a majority of the Board of the Company and the Strategic Rail Authority (in its role as provider of credit facilities) decide that these appointments should not be terminated.

Non-executive directors do not have service agreements and, in accordance with the Company's articles of association, their appointments may be terminated at any time without compensation.

External Appointments

It is recognised that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Group. An individual director will normally be required to account to the Group for all fees received in respect of such directorship unless otherwise approved.

Non-Executive Directors' Remuneration

The non-executive directors of the Company are also the non-executive directors of Network Rail Infrastructure Limited. Each non-executive director has a letter of appointment with either the Company or Network Rail Infrastructure Limited but not both companies nor do other contractual provisions or remuneration arrangements exist in relation to their directorships of any other company within the Network Rail Group. For the purpose of this remuneration report and the remuneration report of Network Rail Infrastructure Limited, therefore, the following provisions set out the terms of Network Rail Limited's or Network Rail Infrastructure Limited's letters of appointment of the non- executive directors as appropriate and they also appear in the Annual Report of Network Rail Infrastructure Limited.

The fees of the non-executive directors are agreed by the Board. They are designed to recognise the significant responsibilities of directors and to attract individuals with the necessary experience and ability to make an important contribution to the Company's business. The fees, which are neither performance related nor pensionable, are comparable with those paid by other comparable private sector companies.

Non-executive directors receive a fee only together with their expenses for attending meetings of the Board and other meetings and events. No additional fees are paid where a non-executive director is a member of or chairs a board committee. They do not receive any other benefits from the Company (save as shown in the table on page 25). The non-executive directors' fees are set by the Board having regard to benchmarking of comparable companies.

Current annual fees for the non-executive directors are:

Non-Executive Director	Fee
Ian McAllister	£210,000
Adrian Montague	£70,000
David Bailey	£35,000
Jim Cornell	£35,000
Charles Hoppe	£35,000
Ross Sayers	£35,000
Robert Smith	£35,000

Directors' emoluments

Disclosure of Directors Remuneration by Type

Name	Note	Salaries and Fees £'000	Bonuses £'000	FURBS & matching AVC payments £'000	Benefits £'000	**2002/03 Total £'000**
J Armitt		211	-	47	10	**268**
D Bailey		21	-	-	-	**21**
J Cornell		19	-	-	-	**19**
I Coucher		197	-	57	6	**260**
P Henderson		143	-	42	6	**191**
R Henderson	2	193	-	42	6	**241**
C Hoppe		22	-	-	-	**22**
CR Leah		141	-	50	9	**200**
I McAllister		99	-	-	-	**99**
A Montague		22	-	-	-	**22**
R Sayers		22	-	-	-	**22**
R Smith	1	25	-	-	-	**25**
Total *		1,115	-	238	37	**1,390**

* Other emoluments received in respect of the acquisition of Railtrack PLC by Network Rail Limited are detailed below.

1. Includes £3,000 in respect of acting as the director representative for Network Rail Limited on the Membership Selection Panel.
2. Includes £52,000 for the period from 12 August 2002 to 2 October 2002.

In addition to the sums disclosed in the tables above, the following sums paid by the SRA are required to be disclosed as payments in respect of the services of particular directors:

1. Ian McAllister received fees totalling £180,000 for his services between 1 April 2002 and 2 October 2002 in connection with developing the bid for, and completing the acquisition of, Railtrack PLC.
2. Societe Generale (of whom Adrian Montague is an employee) received fees totalling £1,240,000 (excluding VAT) for Adrian Montague's services between 1 April 2002 and 2 October 2002 in connection with developing the bid for, and completing the acquisition of, Railtrack PLC.
3. Iain Coucher received fees totalling £480,750 (excluding VAT) for his services between 1 April 2002 and 2 October 2002 in connection with developing the bid for, and completing the acquisition of, Railtrack PLC.

Societe Generale (of whom Adrian Montague is an employee) also received fees from Network Rail Infrastructure Limited totalling £80,000 (excluding VAT) for Adrian Montague's services between 1 October 2002 and 30 November 2002 in connection with his services as a director of Network Rail Infrastructure Limited. Adrian Montague received his non-executive fee from the Company as detailed in the table above with effect from 1 December 2002.

Directors' pensions (audited)

The table below shows the pension entitlement from the Network Rail Section of the Railways Pension Scheme (RPS), and unapproved arrangements where appropriate, of each executive director of Network Rail Infrastructure Limited during the period ended 31 March 2003, together with the increases in those benefits during the year, calculated using the accrued benefit basis.

The increases in RPS benefits during the year represent the amount of the extra annual pension entitlement earned resulting from additional length of service or changes in salary.

The benefits shown below for Iain Coucher, Ron Henderson and Peter Henderson under columns (B), (G) and (J) represent the accrual of benefits from the date of appointment to the Board of Network Rail Infrastructure Limited. Columns (A), (F), (H) and (K) relate to the full year where these directors were employed by that Company prior to being appointed to the Board.

The increase in accrued approved benefit during the year is shown before (A) and after (B) the exclusion of the effect of inflation. All benefit values shown exclude the effect of any additional voluntary contributions made by the director.

Directors participate in the Railways Pension Scheme. In addition, some directors are entitled to additional pension benefits. The method of providing additional pension benefits was changed during 2002/03. Previously additional benefits were unfunded – Network Rail Infrastructure Limited charged an amount to Profit and Loss each year, and thus accrued a reserve in the balance sheet. As a result of the change, the reserve was exchanged for an equivalent payment to a funded pension arrangement. The intention was to broadly maintain the value of benefit. Future contributions are also made to this arrangement.

The increases in annual benefits and accrued benefits at 31 March 2002 as disclosed in the Railtrack PLC accounts as at that date included an element of unfunded defined benefits. The disclosure below incorporates only defined benefits in the RPS, with defined contribution benefits shown separately below.

Core Pension Benefits

	Gross increase in accrued RPS pension	Increase in accrued RPS pension net of inflation	Total accrued RPS pension at 31/03/03	Transfer value of accrued RPS pension at 31/03/02	Transfer value of accrued RPS pension at 31/03/03	Total change in transfer value during period
	(A)	(B)	(C)	(D)	(E)	(F)
	£	£	£	£	£	£
J Armitt	1,628	1,614	2,086	36,431	56,658	15,329
I Coucher	781	777	781	-	5,380	2,757
P Henderson	799	799	799	-	7,618	4,995
R Henderson	799	799	799	-	13,340	10,717
C Leah	65,031	61,262	186,824	3,352,722	3,147,311	(219,823)

1. Pension accruals shown are the amounts which would be paid annually on retirement (or earlier leaving) based on service to the end of the year .
2. Transfer values as at 31/03/2002 (D) and 31/03/2003 (E) have been calculated in accordance with version 1.5 of guidance note GN11 issued by the actuarial profession.
3. The change in the transfer value (F) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as stockmarket movements. It is calculated after deducting the director's contributions.
4. I Coucher, R Henderson and P Henderson became members of the scheme on 3 October 2002. The combined code requires (B) to reflect only the part year, whilst the other disclosures relate to the full year.

In normal circumstances the earliest age at which the executive directors are entitled to receive their deferred benefits pension without actuarial reduction is age 60. However, the directors can retire early on the same terms and conditions that apply to other members of the Network Rail Section of the Railways Pension Scheme from the age of 50. The actuarial reduction factors that apply under the Scheme are a 2% per annum reduction between the ages of 60 and 55, and a 3% per annum reduction for ages below 55. In keeping with other members of the Scheme the right to take early retirement benefits is at the option of the individual, subject only to having left Network Rail Infrastructure's employment.

In addition to members' benefits, dependants' pensions are paid to a surviving spouse on death after retirement in line with those paid to all members of the Railways Pension Scheme. The dependant's pension is payable at the rate of one half of the member's pension accrued at the date of death, or in payment if death occurs after retirement, although on death after retirement the effect of any commutation for a tax-free cash sum is ignored when calculating the dependant's pension. In addition, the Scheme pays pensions to surviving children. Where two children survive, a pension additional to the dependant's pension is paid at the rate of $^3/_8$ of the member's pension. Children's pensions are paid to the age of 18 or a later age, at the discretion of the Network Rail Section Pensions Committee, if the child is in full time education or handicapped. The Railways Pension Scheme provides guaranteed increases to all pensions in payment and deferment in line with the Retail Prices Index.

The executive directors contribute to the Railways Pension Scheme at the same rate as other members of the Network Rail Section.

Additional pension benefits

As described above, some directors are entitled to additional pension benefits. Where a director is entitled to such benefits, the director can choose the extent to which the gross payment is made to the pension arrangement, or taken as cash. Future contributions are at a pre determined level, and the amount has been notified to each director. The initial contributions in respect of benefits accrued prior to the year under review are shown below, along with payments made during the year.

The Railways Pension Scheme also operates a matching Additional Voluntary Contribution facility, whereby voluntary contributions paid by members are matched by equivalent payments from the Company, up to certain limits. These payments are also shown below.

	Contributions to additional pension provision whilst a Director during the year (G) £	Contributions to additional pension provision during whole year (H) £	Payments to additional pension provision in respect of prior years (I) £	Matching additional voluntary contributions whilst a Director during the year (J) £	Matching additional voluntary contributions during whole year (K) £
J Armitt	48,028	48,028	6,555	21,765	21,765
I Coucher	56,781	56,781	0	0	0
P Henderson	41,987	41,987	0	0	0
R Henderson	41,987	56,682	0	0	0
C Leah	93,890	93,890	315,162	7,974	7,974

I Coucher, R Henderson and P Henderson were only entitled to additional pension benefits from 3 October 2002. The combined code requires (G) and (J) to reflect only the part year, whilst the other disclosures relate to the full year. Included in the above table are entitlements of J Armitt and C Leah relating to services provided to Network Rail Infrastructure Limited for the period prior to acquisition.

None of the non-executive directors is a member of the Network Rail Section of the Railways Pension Scheme and they have no other pension entitlements.

Performance Graph

As the Company has no listed shares total shareholder return cannot be illustrated.

Directors' interests

The Company has no shares and directors have no interests in shares of the Company.

On behalf of the Remuneration Committee

Sir Robert Smith (Chairman, Remuneration Committee)
4 June 2003

Corporate Governance Report

It is a condition of Network Rail Infrastructure Limited's network licence that, from 3 October 2002, it complies with the governance principles contained in the code annexed to the UK Listing Authority's listing rules ("the Code"). The Company has also undertaken, so far as it is practical to do so having regard to its corporate structure, to comply with the code. The Code includes a requirement for companies to make statements on corporate governance in their annual reports.

In January 2003 the Higgs Report was published on the role of non-executive directors. In reviewing its governance procedures, the Board has incorporated as many of the recommendations of the Higgs Report as practical given that the Higgs Report has not yet been formally adopted by the UK Listing Authority.

Also in January 2003 the Smith Report on audit committees was published and again the recommendations of that report have been adopted by the Company and in particular the terms of reference and conduct of the Audit Committee of the Company include the principles of that Report.

The following comments are, therefore, included to demonstrate how the Board has been implementing compliance with the Code, taking into account that Network Rail Infrastructure Limited was not acquired by Network Rail Limited until 3 October 2002 when it became a subsidiary in the Network Rail group of companies.

Corporate governance principles

The Board considers that good corporate governance is central to achieving the Company's objectives and the principle of safeguarding stakeholders interests in the rail infrastructure. The Company is also committed to the highest standards of business behaviour.

The information contained within pages 14 and 15 shows that the Company is led and controlled by a board comprising five executive and seven non-executive directors with wide experience both within the rail industry and generally. The Strategic Rail Authority has rights under the Articles of Association to appoint a Special Director to the Board of the Company.

Board of Directors

The appointment of directors is to be considered by the Board. Under the provisions of the Articles of Association of Network Rail Limited, all new directors, save the Special Director, must retire by rotation, and may stand for re-election by the members of the Company at least every three years.

The non-executive directors constructively challenge and contribute to the development of the strategy of the Company as well as scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance.

The Board considers that all the non-executive directors are independent of the Company. Given the definition of "independent" contained within the Higgs Report it is appropriate to disclose that Jim Cornell was, until 1996, a director of British Rail. He currently receives a pension from the Network Rail section of the Railways Pension Scheme. He is also a member of the Railway Heritage Trust. The Board considers, however, that as a non-executive director of Network Rail, Jim Cornell is independent as he was not an employee or executive director of Railtrack PLC since its privatisation. Furthermore, the corporate structure of Network Rail Limited, being a 'not for dividend' company, eliminates any potential or perceived conflicts between him being a non-executive director of the Company and receiving a pension from the Company. Jim Cornell having held various senior roles within British Rail before retiring on the creation of Railtrack PLC, is a highly experienced and respected railwayman who contributes considerable knowledge to the Company. This enables him to challenge constructively and effectively operational matters within the Company as well as participating in the full range of responsibilities of a non-executive director.

None of the non-executive directors are members of more than three committees of the Board except David Bailey who is a member of the Nominations and Remuneration Committees of the Board due to his nomination to the Board in accordance with the Company's Articles of Association as the SRA's Special Director. By request of the SRA he is also a member of the Audit and Safety, Health & Environment Committees.

Board Processes

The Board is scheduled to meet ten times a year and a format is prepared and agreed, which ensures that the directors are able to review corporate strategy regularly and the operations and results of the business units within the Group and to discharge their other duties.

The Board has established six standing committees with defined terms of reference as follows:

The ***Safety, Health & Environment Committee*** is chaired by Jim Cornell and comprises three other non-executive directors and the Chief Executive. The Committee's role is to monitor the safety, health, environmental responsibilities of the Company. It has met once between 3 October 2002 and 31 March 2003. In addition to this committee, reflecting the recommendations in the Cullen Report, two executive committees have been set up dealing with strategic and tactical safety matters. Prior to the creation of these committees, other executive safety committees were in place, which met monthly. Further, the Board receives a report on safety, health and environment matters at each of its scheduled meetings.

The ***Audit Committee*** is chaired by Ross Sayers and comprises three other non-executive directors whose role it is to satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible. It has met twice between 3 October 2002 and 31 March 2003.

The ***Remuneration Committee*** is chaired by Sir Robert Smith and comprises six other non-executive directors who determine appropriate levels of directors' and senior executives' remuneration. It has met six times between 3 October 2002 and 31 March 2003. The Committee's Report is contained in pages to 16 to 28.

The ***Nomination Committee*** is chaired by Jim Cornell and comprises two other non-executive directors who are responsible for considering and recommending the appointment of new directors and other significant functions. The Committee has met once between 3 October 2002 and 31 March 2003 to consider its terms of reference for recommendation for adoption to the Board and to consider potential candidates for the non-executive and special advisor positions on the Network Rail Property Board. Candidates for these positions were sought through external management search sources due to the highly specialised and sensitive nature of the positions.

The ***Network Rail Property Board*** is chaired by Adrian Montague and comprises four of the executive directors, the Company's Railway Estates Director, and, selected for their expertise in property matters, three external non-executives and a special advisor. The Committee's role is to direct the Company's strategic development of its property portfolio and it met for the first time following the end of the 2002/03 financial year.

The ***Executive Committee*** is chaired by the Chief Executive and comprises all the executive directors and a number of senior executives. This Committee manages the functions of the business and implements the operational and financial objectives as set by the Board.

The roles of the Chairman, the Chief Executive and the Board and its governance arrangements will be reviewed annually and the performance of the members of the Board will be regularly assessed.

The Group Company Secretary is the secretary to the Board and all of the above committees. All directors have access to the Group Company Secretary for advice on corporate governance, Board procedure and compliance matters. The Group Company Secretary is also responsible for facilitating the induction and professional development of Board members and ensuring that good information flows within the Board, its Committees and between the non-executive directors and senior management.

The following table identifies the number of Board and main committee meetings held between 3 October 2002 and 31 March 2003 and the attendance record of individual directors:

	Board Meetings	Nominations Committee	Remuneration Committee	Audit Committee	Safety Health & Environment Committee	Executive Committee
No. of Meetings held [(1) (2)]	6	1	6	2	1	5
Director						
J Armitt	6	n/a	Attendee	n/a	1	5
D Bailey	6	1	6	2	1	n/a
J Cornell	6	1	6	n/a	1	n/a
I Coucher	6	n/a	n/a	n/a	n/a	4
P Henderson	6	n/a	n/a	Attendee	n/a	5
R Henderson	6	n/a	n/a	n/a	n/a	4
C Hoppe	6	n/a	6	n/a	1	n/a
C Leah	6	n/a	n/a	n/a	Attendee	4
I McAllister	6	1	6	n/a	n/a	n/a
A Montague	5	n/a	5	1	n/a	n/a
R Sayers	5	n/a	4	2	1	n/a
R Smith	6	n/a	6	2	n/a	n/a

1. Between 3 October 2002 and 31 March 2003.
2. Network Rail Property Board held its first meeting after 31 March 2003

Information about the directors' remuneration is given in the Directors' Remuneration Report on pages 16 to 28 of this Report and details of how the Board reviews financial and operational controls and risk management generally are shown on page 33 and in the financial review on pages 7 to 9.

Relations with Members and Stakeholders

During the 2002/03 financial year two extraordinary general meetings for the Company's members were held, in August and December 2002, at which the members appointed at those dates ratified the appointment of the directors of the Board of the Company (who are the same directors as those of Network Rail Infrastructure Limited). At those meeting members were advised of developments within the Company. The Company also provided presentations on certain aspects of the business to assist members in their understanding.

The Annual General Meeting will be held in July 2003. In addition other meetings and visits for the Company's members are being arranged for 2003 to give members opportunities to learn more of the operational aspects of the business. Members also receive periodic newsletters and press releases and other information relating to the Company.

The Chief Executive and the Deputy Chief Executive as well as the other executive directors, have regular meetings with representatives of the Strategic Rail Authority, Office of the Rail Regulator, train operators, freight operators and other rail stakeholders.

Compliance with the Code

Save that the Special Director is not required to retire by rotation every three years, the directors believe that where practical having regard to its corporate structure, the Company has implemented compliance with the Code (and the recommendations of Higgs and Smith Reports) following the acquisition of Network Rail Infrastructure Limited in October 2002 and that since that time it has complied with the current Code provisions where the requirements are of a continuing nature.

Going concern

The directors are satisfied that the Company and the group have adequate resources to continue to operate for the foreseeable future and are financially sound. For this reason they continue to adopt the going concern basis in preparing the accounts.

Internal control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Company is committed to the development and enhancement of existing systems of internal control and risk management.

The Company has established an Audit Committee, which consists of four non-executive directors. The Committee's terms of reference embrace the recommendations of the Smith Report, including the specific obligation to review and report on the effectiveness of the Company's internal control and risk management systems. The Audit Committee will monitor all forms of risk, except those covered by the terms of reference of the Safety, Health and Environment Committee.

On 3 October 2002, Network Rail Limited (through its wholly-owned subsidiary Network Rail Holdco Limited) acquired the share capital of Network Rail Infrastructure Limited. From that date the Group has been required to comply with Turnbull guidance on internal control. During the second half of the financial year the Board has taken progressive steps to establish an on-going process for the identification, evaluation and management of the key strategic risks including:

- Agreement of a Group risk management policy together with a strategy for delivery.
- Development of processes and systems to support the policy and strategy.
- Identification and agreement of the key risks faced by Network Rail in meeting its future business objectives and the allocation of director champions to develop management plans for the mitigation of key risks
- Agreement of an audit process to ensure regular review and reporting by Internal Audit to the Audit Committee in respect of the risk management system and the effectiveness of the internal controls implemented by management to mitigate the significant risks.

Steps are also being taken to embed risk management procedures into all the Group's operations and to extend awareness of the importance of the management of risks. Directors and Heads of Department will have responsibility for implementing risk management within their functions and for upholding the values expressed in the risk management policy.

The Directors have reviewed the system of internal control. The Board, as a result, concluded that there was a need for improvement in the existing internal control framework, and particularly the compliance therewith, and has put in place a number of key action plans to improve controls. In addition to the action plan which will deliver an integrated risk management system, the strengthening of the internal control framework is supported by a number of other Network Rail action plans, particularly those dealing with organisation and culture, financial control and Information Management.

Statement of Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the Members of Network Rail Limited

We have audited the financial statements of Network Rail Limited for the period from 22 March 2002 to 31 March 2003 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement, and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

The directors have also asked us to review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review as if the Listing Rules of the Financial Services Authority applied, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above period as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our 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 and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 to the financial statements, concerning a fundamental uncertainty relating to the West Coast Route Modernisation project ("WCRM"). During the period the Company has been seeking an agreement with Virgin Trains Limited ("Virgin"), the Strategic Rail Authority ("SRA") and the Office of the Rail Regulator ("ORR") on a revised contract and output specification in respect of WCRM. At the date of approval of the financial statements the SRA has concluded its review of the optimal capacity utilisation of the West Coast Mainline and the infrastructure necessary to support this capacity, and published its West Coast strategy for consultation. However the ORR has still to review the SRA's proposals and consent to them.

There is a fundamental uncertainty as to the outcome of the ORR's review and it is therefore not possible to quantify with any certainty the potential costs of any settlement with Virgin or the extent to which they would need to be provided in the consolidated profit and loss account, consolidated balance sheet or Company balance sheet at 31 March 2003.

Our opinion is not qualified in this respect

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the loss of the Group for the period from 22 March 2002 to 31 March 2003; and
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors, London
4 June 2003

Consolidated Profit and Loss Account

	Note	Period from 22 March 2002 to 31 March 2003 £m
Turnover	2	**1,443**
Operating costs	4	**(1,460)**
Operating loss	5	**(17)**
Profit on sale of properties		**25**
Net interest payable	8	**(165)**
Loss on ordinary activities before taxation		**(157)**
Tax credit on loss on ordinary activities	9	**41**
Loss on ordinary activities after taxation and retained loss for the financial period	22	**(116)**

All amounts relate to continuing acquired activities.

Consolidated Statement of Total Recognised Gains and Losses

	Note	Period from 22 March 2002 to 31 March 2003 £m
Loss for the financial period		**(116)**
Revaluation of the railway network	12	**698**
Total recognised gains and losses for the period		**582**

Historical cost profits and losses are disclosed in note 23 to the financial statements.

Balance Sheets

	Note	2003 Group £m	2003 Company £m
Fixed assets			
Intangible fixed assets			
Concessions	10	**25**	-
Negative goodwill	11	**(417)**	-
		(392)	-
Tangible fixed assets	12	**12,835**	-
		12,443	-
Current assets			
Stocks	13	**38**	-
Debtors – amounts falling due within one year	14	**1,694**	-
Debtors – amounts falling due after more than one year	14	**31**	-
		1,725	
Current asset investments	15	**178**	-
Cash at bank and in hand		**8**	-
		1,949	-
Creditors: Amounts falling due within one year	16	**(10,570)**	-
Net current liabilities		**(8,621)**	-
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,822**	-
Creditors: Amounts falling due after more than one year	17	**(2,468)**	-
Provisions for liabilities and charges	19	**(772)**	-
Net assets		**582**	-
Revaluation reserve	21	**698**	-
Profit and loss account	21	**(116)**	-
Capital and reserves		**582**	-

These financial statements were approved by the Board of Directors on 4 June 2003.

Signed on behalf of the Board of Directors:

John Armitt

John Armitt (Director)

Ronald Henderson

Ron Henderson (Director)

Consolidated Cash Flow Statement

	Note	Period from 22 March 2002 to 31 March 2003 £m
Net cash outflow from operating activities	26	**(14)**
Returns on investments and servicing of finance		
Interest received		**9**
Interest paid		**(217)**
Net cash outflow from returns on investments and servicing of finance		**(208)**
Capital expenditure		
Purchase of tangible fixed assets		**(1,651)**
Sale of tangible fixed assets		**27**
Capital element of finance lease receipts		**3**
Capital grants received		**25**
Net cash outflow from capital expenditure		**(1,596)**
Acquisitions and disposals		
Purchase of Railtrack PLC		**(510)**
Grant received from SRA towards purchase of shares of Railtrack PLC		**300**
Net cash outflow from acquisitions and disposals		**(210)**
		(2,028)
Management of liquid resources		
Sale of short term investments		**233**
Financing		
New loans		**8,438**
Capital element of finance leases repaid		**(1)**
Repayment of loans		**(6,634)**
Net cash inflow from financing		**1,803**
Increase in cash in the period	27, 28	**8**

Notes to the Financial Statements

Period from 22 March 2002 to 31 March 2003

1. Basis of Preparation and Accounting Policies

Fundamental uncertainty – West Coast Route Modernisation ("WCRM")

In preparing the financial statements the directors have considered a fundamental uncertainty relating to WCRM. During the period the Company continued to seek an agreement with Virgin Trains Limited ("Virgin"), the Strategic Rail Authority ("SRA") and the Office of the Rail Regulator ("ORR") on a revised contract and output specification in respect of WCRM. At the date of approval of the financial statements, the SRA has concluded its review of the optimal capacity utilisation of the West Coast Mainline and the infrastructure necessary to support this capacity, and published its West Coast strategy for consultation. However the ORR has still to review the SRA's proposals and consent to them.

There is a fundamental uncertainty as to the outcome of the ORR's review and it is not possible to quantify with any certainty the potential costs of any settlement with Virgin, or the extent to which they would need to be provided in the consolidated profit and loss account, consolidated balance sheet or Company balance sheet at 31 March 2003 or in the fair value adjustments made on acquisition of Railtrack PLC (now Network Rail Infrastructure Limited). In the opinion of the directors it would be seriously prejudicial for the Group to attempt to disclose any further information about the uncertainties or the potential financial effect of possible outcomes.

Principal accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards. The principal accounting policies adopted are described below.

Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties to open market value and the revaluation of the railway network at the lower of its depreciated replacement cost and value in use.

Basis of consolidation

The consolidated Group financial statements incorporate the financial statements of the Company and all of its subsidiaries.

The results and cashflows relating to the acquisition of subsidiaries are included in the consolidated profit and loss account and the consolidated cashflow statement from the date of acquisition or up to the date of disposal.

The results and cashflows of Network Rail Infrastructure Limited are included from 3 October 2002, the date of acquisition by the Company's wholly owned subsidiary Network Rail Holdco Limited.

Turnover

Turnover represents amounts due for the period derived from the management and provision of assets for the use in the operation of a railway, property rental income, and the sale of commercial and development properties, net of value added tax and takes account of any penalties or bonuses in respect of the period

Performance regimes

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

Tangible Fixed assets

Fixed assets – The railway network

As detailed above the railway network is valued at depreciated replacement cost. A revaluation of the assets that comprise the railway network and their estimated remaining weighted average useful economic lives will be performed annually with external verification of the valuation and asset lives carried out, where required at least every five years.

The railway network is written down in the financial statements to its value in use where there has been an impairment in value.

Depreciation

The railway network is depreciated on a straight line basis over its estimated remaining weighted average useful economic life.

The estimated remaining weighted average useful economic life of the network at 31 March 2003 was 25 years.

Investment properties

Investment properties comprise offices and other non-specialist properties that are not occupied by the Company where the interest is completely separable from the railway infrastructure, and which are held for their investment potential. Investment properties are revalued periodically in accordance with SSAP 19 'Accounting for Investment Properties'. Any surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the period.

No depreciation is provided in respect of freehold investment properties or leasehold investment properties with over 20 years to expiry. This is a departure from the requirements of the Companies Act 1985 which requires all properties to be depreciated.

The directors consider that this accounting policy results in the financial statements giving a true and fair view. Such properties are held for investment and not for consumption. The directors consider that to depreciate them would not give a true and fair view. Depreciation is one of many factors reflected in the annual valuation and the amount that might otherwise have been shown cannot be separately identified or quantified.

Intangible fixed assets

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

Negative goodwill

Negative goodwill which arose on the acquisition of Railtrack PLC (now Network Rail Infrastructure Limited) is being amortised over the estimated weighted average useful economic life of the railway network of 25 years.

Fixed asset investments

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

Grants

Grants and other contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and credited to the profit and loss account over the estimated useful economic life of the asset. Revenue grants earned for the management and provision of railway network assets are credited to the profit and loss account in the period to which they relate.

Deferred taxation

Deferred taxation 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 that 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.

Long term contracts

Long term contract 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.

Stocks

Stocks and work-in-progress, other than on long term contracts, are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

Leases

The net investment in assets leased to third parties is included in debtors. Income from finance leases is allocated to accounting periods so as to give a constant rate of return on the net investment in the lease.

Assets obtained under finance leases and hire purchase contracts are included in tangible fixed assets. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pension costs

The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll. Differences between the amount charged to the profit and loss account and payments made to schemes are treated as asset or liabilities in the balance sheet. Further details are given in note 7 to the financial statements.

Research and development

Research and general development expenditure is charged to the profit and loss account as incurred.

Expenditure on the development of specific projects is carried forward when its recoverability can be foreseen with reasonable certainty.

Financial instruments

The Company 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 profit and loss account. No transactions of a speculative or trading nature are undertaken. Financial instruments are not recognised in the balance sheet.

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 period was 4.30%.

Foreign exchange

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial period. Individual transactions denominated in foreign currencies are translated into sterling at the exchange rates ruling on the dates payment takes place, unless related or matching forward foreign exchange contracts have been entered into, then the rates specified in the relevant contracts are used. All exchange differences are included in the profit and loss account.

Eurobonds and exchangeable bonds

The discount of principal and related fees associated with the issue of eurobonds and exchangeable bonds are accounted for as a reduction in the balance outstanding of the eurobonds and exchangeable bonds, and are amortised over the lives of the bonds. The amortisation charge is included within interest payable.

Property clawback

Train operating companies are entitled to a share of any property gains and income (above certain thresholds). The total clawback is allocated between the profit and loss account and the statement of total recognised gains and losses according to the treatment of the excess gains.

2. Turnover

	Period from 22 March 2002 to 31 March 2003 £m
Passenger franchise revenue	**800**
SRA revenue grants	**499**
Freight revenue	**35**
Property rental income	**79**
Other income	**30**
	1,443

All turnover relates to the UK.

All losses arose from the Group's principal activity, the management of the national rail infrastructure.

3. Performance Regimes

The net effect of the performance regimes on the results of the Group for the period was as follows:

	Period from 22 March 2002 to 31 March 2003 £m
Included in turnover	
Access charge supplements	**43**
Net penalty payable to customers	**(284)**
	(241)

4. Operating costs

	Period from 22 March 2002 to 31 March 2003 £m
Other operating income	**(56)**
Staff costs (note 6)	**286**
Own work capitalised	**(156)**
Capital grants amortised	**(14)**
Other external charges	**1,181**
Depreciation and other amounts written off tangible fixed assets	**219**
	1,460

5. Operating loss

	Period from 22 March 2002 to 31 March 2003 £m
Operating loss is stated after charging/ (crediting):	
Rentals under operating leases	
Plant and machinery	**3**
Other	**37**
Research and development	**5**
Depreciation and other amounts written off fixed assets	**219**
Amortisation of intangible fixed assets – concessions	**1**
Amortisation of negative goodwill	**(8)**
Auditors' remuneration	
Statutory audit services	**0.4**
Other compliance work	**0.1**
Other non-audit fees	**0.3**

6. Employees

	Period from 22 March 2002 to 31 March 2003 £m
Staff costs during the period (including directors):	
Wages and salaries	**229**
Social security costs	**20**
Pension costs	**37**
	286
Average number of persons employed:	**No.**
Management and operation of railway	**13,543**
Number of persons employed:	**No.**
At 31 March 2003	**13,774**

Included within the total staff cost above is the remuneration of the directors totalling £1.4million, details of which can be found within the Remuneration Report on pages 16 to 28.

7. Pension costs

The principal pension scheme in which the Group participates is the Railways Pension Scheme (RPS), which was established by statutory instrument and commenced on 1 October 1994 and is a funded defined benefit arrangement. The assets and liabilities under the predecessor scheme, the BR Pension Scheme (BRPS), were transferred to the RPS on that date. The RPS is an industry-wide scheme for all eligible employees within the railway industry. There are different sections within it for different employers. The assets and liabilities of each section are identified separately from those of the other sections. The Group has its own section, the Network Rail Shared Cost Section (the 'Network Rail Section'). This scheme, whose assets are held separately from the Group, is contributory and provides pensions related to pay at retirement.

The assets transferred to the RPS from the BRPS on 1 October 1994 were apportioned amongst the various sections of the RPS in accordance with the methods and assumptions specified in The Railways Pensions (Transfer and Miscellaneous Provisions) Order 1994 (the 'Transfer Order') which effected the transfer. The amount credited to the Network Rail Section included a share of the surplus at that time.

A full actuarial valuation of the Network Rail Section was carried out by the scheme actuary at 31 December 2001 and adjusted to 31 March 2003 by the Group's pension advisor, a qualified independent actuary. The total contribution rate payable under the RPS is normally split in the proportion 60:40 between the Group and the 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 that the Company and members usually benefit from or pay for this respectively in the proportion 60:40. Based on the adjusted valuation, the Group's pension charge for the period ended 31 March 2003 was £37million. The pension provision as at 31 March 2003 is £225million.

The independent actuary has assessed the charge in respect of pension provision for the Group using the following market-related assumptions.

The principal assumptions used in establishing the pension cost for the period were inflation of 2.60% per annum, an investment return of 5.40% per annum, and pay inflation 5.10% per annum. Assets have been taken at market value. Liabilities and the contribution rate have been assessed using the projected unit credit method. The Network Rail Section's funding level was assessed on this basis to be 66% of its liabilities as at 31 March 2003.

FRS17 pension disclosures

The pension cost figures in these financial statements comply with the current pension cost accounting standard SSAP24. A new pension cost accounting standard, FRS17 ("Retirement Benefits"), must be used for the figures that will be shown in the financial statements for the year ended 31 March 2006 and subsequent years. Under transitional arrangements the Group is required to disclose the following information about the scheme and the figures that would have been shown under FRS17 in the current balance sheet, profit and loss account and statement of total recognised gains and losses.

The Group operates a tax exempt, approved defined benefit scheme in the UK and has some unapproved arrangements for a small number of executives. The RPS operates on a "shared cost" basis. Broadly speaking, the costs of pension benefits are borne by the Company and members in the proportion 60:40. A full actuarial valuation of the approved scheme was carried out at 31 December 2001 and adjusted to 31 March 2003 for FRS 17 disclosure purposes by a qualified independent actuary.

The major assumptions used by the actuary were (in nominal terms):

	At 31 March 2003
Rate of increase in salaries	**5.10% p.a.**
Rate of increase to pensions in payment	**2.60% p.a.**
Discount rate	**5.40% p.a.**
Inflation assumption	**2.60% p.a.**

The assets in the scheme and the expected rate of return calculated on the basis of the above assumptions by the independent actuary were:

	Long-term rate of return expected at 31 March 2003 %	**Value at 31 March 2003 £m**
Equities	6.12%	**759**
Bonds	4.12%	**103**
Property	6.12%	**75**
Total market value of assets		**937**
Present value of scheme liabilities		**(1,233)**
Deficit in the scheme		**(296)**
Related deferred tax asset		**89**
Net pension liability		**(207)**

If the entire pension liability was recognised in the financial statements, the Group's net assets and profit and loss reserve would be as follows:

	Value at 31 March 2003 £m
Net assets excluding SSAP24 pension liability	**807**
Net FRS17 pension liability	**(207)**
Net assets including FRS 17 pension liability	**600**
Profit and loss reserve excluding SSAP 24 pension liability	**109**
Net FRS17 pension liability	**(207)**
Profit and loss reserve including FRS17 pension liability	**(98)**

Analysis of amount that would have been charged in the profit and loss account:

	Period from 22 March 2002 to 31 March 2003 £m
Service cost	23
Past service cost	-
Total charge to operating profit	23
Expected return on pension scheme assets	27
Interest on pension scheme liabilities	(31)
Total charge to net finance cost	(4)

Analysis of amount that would have been recognised in statement of total recognised gains and losses:

	Period from 22 March 2002 to 31 March 2003 £m
Actual return less expected return on assets	(18)
Experience gains and losses on liabilities	-
Changes in assumptions	(141)
Expected employee contribution towards shared cost of deficit	68
Actuarial loss	(91)
Movement in deficit in the period	
Deficit in scheme acquired	(194)
Current service cost	(23)
Contributions	16
Net interest cost	(4)
Actuarial loss	(91)
Deficit in scheme at the end of the period	(296)

History of experience gains and losses:

	Period from 22 March 2002 to 31 March 2003 £m
Difference between expected and actual return on scheme assets	**(18)**
Percentage of scheme assets	**1.9%**
Experience gains and losses	**-**
Percentage of scheme liabilities	**0%**
Total amount recognised in the statement of total recognised gains and losses	**(91)**
Percentage of scheme liabilities	**7.4%**

8. Net interest payable

	Period from 22 March 2002 to 31 March 2003 £m
Interest payable and similar charges:	
On bank loans and overdrafts	**186**
On other loans	**16**
Total	**202**
Interest capitalised	**(28)**
	174
Interest receivable	**(9)**
Net interest payable	**165**

9. Tax credit on loss on ordinary activities

	Period from 22 March 2002 to 31 March 2003 £m
Analysis of credit in period	
Current UK Corporation Tax at 30%:	
Over provision in respect of prior years	**6**
Total current tax credit	**6**
Deferred tax at 30%:	
Credit for timing differences arising in the period	**35**
Total deferred tax	**35**
Tax credit on loss on ordinary activities	**41**

Current factors affecting the tax credit for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Period from 22 March 2002 to 31 March 2003 £m
Loss on ordinary activities before tax	**(157)**
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**(47)**
Accelerated capital allowances	**(107)**
Tax losses carried forward	**166**
Other short term timing differences	**(24)**
Adjustments in respect of prior years	**(6)**
Permanent differences	**12**
Total current tax credit	**(6)**

10. Intangible fixed assets

	Concessions £m
Cost	
At 22 March 2002	-
Additions	26
At 31 March 2003	26
Accumulated amortisation	
At 22 March 2002	-
Charge for the period	(1)
At 31 March 2003	(1)
Net book value	
At 22 March 2002	-
At 31 March 2003	25

On 6 November 2002 Network Rail (CTRL) Limited, a wholly owned subsidiary of the Company acquired the St Pancras Concession Agreement and Railway Services Agreement ("RSA") in respect of the Channel Tunnel Rail Link ("CTRL") for consideration of £26million.

The St Pancras Concession Agreement lasts until 29 July 2086 and is not currently being amortised given that the concession has not commenced. Under the 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.

11. Investments in subsidiaries and negative goodwill

	At cost £m
Investments in subsidiaries at 22 March 2002	-
Additions during the period	-
Investment in subsidiaries at 31 March 2003	-

On 11 June 2002 the Company acquired the entire share capital of Network Rail Holdco Limited for £1.

On 3 October 2002 the Company's wholly owned subsidiary, Network Rail Holdco Limited acquired the entire share capital of Railtrack PLC (now Network Rail Infrastructure Limited) from Railtrack Group PLC for consideration of £500million. Expenses of £10million were incurred in connection with the acquisition.

The following table sets out the identifiable assets and liabilities acquired and their fair value:

	Book value £m	Provisional Fair value £m
Fixed assets	**9,408**	**10,704**
Stocks	**36**	**36**
Debtors	**1,462**	**1,391**
Current asset investments	**411**	**411**
Total assets	**11,317**	**12,542**
Creditors: amounts falling due within one year	**(7,002)**	**(7,002)**
Creditors: amounts falling due after more than one year	**(3,652)**	**(3,799)**
Provisions for liabilities and charges	**(126)**	**(806)**
Total liabilities	**(10,780)**	**(11,607)**
Net assets	**537**	**935**
Satisfied by:		
Cash consideration (including acquisition expenses)		**510**
Negative goodwill		**425**
Representing:		
Impact of change in accounting policy for the railway network in Network Rail Infrastructure Limited		**1,296**
Market value of debt		**(147)**
Pensions		**(194)**
Deferred taxation		**(557)**
Opening excess of book value over consideration paid		**27**
		425
Amortisation credited in the period		**(8)**
Balance at 31 March 2003		**417**

Summarised profit and loss accounts of Railtrack PLC (now Network Rail Infrastructure Limited) for the year ended 31 March 2002 and the period to 3 October 2002, the date of acquisition, are set out below:

	Period from 1 April 2002 to 3 October 2002	Year to 31 March 2002
	£m	£m
Turnover	**1,522**	2,912
Normal operating costs	**(2,076)**	(3,082)
Exceptional operating costs	**(40)**	(908)
Operating loss	**(594)**	(1,078)
Profit on sale of properties	**20**	53
Net interest payable	**(144)**	(318)
Loss on ordinary activities before taxation	**(718)**	(1,343)
Tax credit on loss on ordinary activities	**73**	274
Loss on ordinary activities after taxation and retained loss for the financial period/ year	**(645)**	(1,069)

These amounts are stated before adjustments arising as a result of changes in accounting policies in respect of railway network fixed assets and deferred taxation.

The Company's subsidiaries are set out below:

Directly owned	Country of incorporation	Proportion of all classes of issued share capital owned by the Company	Principal Activity
Network Rail Holdco Limited	England	100%	Holding company
Railway Safety and Standards	England	Company limited by guarantee	Dormant
Railway Safety	England	Company limited by guarantee	Overseeing railway safety

Held through subsidiary			
Network Rail Infrastructure Limited, formerly Railtrack PLC	England	100%	Management of the UK railway infrastructure
Network Rail Insurance Limited, formerly Railtrack Insurance Limited	Guernsey	100%	Insurance
Network Rail (Stations) Limited, formerly Railtrack (Stations) Limited	England	100%	Dormant
Network Rail (Projects) Limited, formerly Railtrack (Projects) Limited	England	100%	Dormant
Network Rail (Property) Limited, formerly Cambridge Gate Limited	England	100%	Dormant
Spacia (2002) Limited	England	100%	Dormant
Network Rail (CTRL) Limited, formerly Hackremco (No.1958) Limited	England	100%	Holds St Pancras concession
Network Rail (Spacia) Limited, formerly Railtrack (Spacia) Limited	England	100%	Property letting

The Company did not effectively control Railway Safety during the period ended 31 March 2003, therefore the results and position of that entity have not been consolidated into these Group financial statements.

12. Tangible fixed assets: Group

The fixed assets of the Group are primarily held by the Company's principal subsidiary undertaking, Network Rail Infrastructure Limited.

	At 22 March 2002 £m	Acquisitions £m	Additions £m	Disposals £m	Depreciation charge for the period £m	Revaluation during period £m	**At 31 March 2003 £m**
Cost or valuation							
Railway network at valuation	-	10,631	1,654	-	(219)	698	**12,764**
Investment properties at valuation	-	73	-	(2)	-	-	**71**
Total	-	10,704	1,654	(2)	(219)	698	**12,835**

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 to the Directors 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).

The revaluation in the current period represents an increase in the railway network value in use, as a result of the Regulator allowing certain adjustments to the regulatory asset base to reflect the additional expenditure on operating, maintaining and renewing the network in the period ended 31 March 2003.

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

The freehold, heritable, feuhold and long leasehold investment properties were valued as at 31 March 2003 at £71million. The valuations were undertaken on the basis of open market value in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors. External valuers, CB Hillier Parker, valued 13 of the 75 investment properties (representing 84% by value of the portfolio). The remaining properties were valued by the Director of Sales, Railway Estates, a chartered surveyor.

As at 31 March 2003, the comparable amount of the investment properties according to the historical cost convention is determined as £13million.

13. Stocks

	Group 31 March 2003 £m	Company 31 March 2003 £m
Raw materials and consumables	25	-
Properties in the course of development	1	-
Long term contract balances:		
Net cost	18	-
Applicable payments on account	(6)	-
	38	-

14. Debtors

	Group 31 March 2003 £m	Company 31 March 2003 £m
Amounts falling due within one year		
Trade debtors	285	-
Capital grants receivable	1	-
Other debtors	192	-
Prepayments and accrued income	1,209	-
Net investment in finance leases	7	-
	1,694	-
Amounts falling due after more than one year		
Net investment in finance leases	31	-
	31	-
Total	1,725	-
Net investment in finance leases comprises:		
Total lease payments receivable	54	-
Less: finance charges allocated to future periods	(16)	-
	38	-

Aggregate rentals receivable in respect of finance leases for the Group were £6million.

15. Current asset investments

	Group 31 March 2003 £m	Company 31 March 2003 £m
Short term money market deposits	**178**	-

16. Creditors: Amounts falling due within one year

	Group 31 March 2003 £m	Company 31 March 2003 £m
Bank loans and overdrafts (see note 18)	**8,449**	-
Payments received on account	**24**	-
Trade creditors	**688**	-
Amounts owed to other group companies not consolidated	**11**	-
Other creditors	**49**	-
Capital grants deferred income	**10**	-
Interest accruals	**132**	-
Other accruals and deferred income	**1,207**	-
	10,570	-

A £9billion bridge finance facility included in bank loans and overdrafts above was secured by the Company's subsidiary Network Rail Holdco Limited during the period.

The facility comprises a 364 day term loan facility of £6.85billion and a 364 day revolving credit facility of £2.15billion. The term loan is divided into three tranches:

Tranche A is for the purpose of funding the acquisition of the entire issued share capital of Railtrack PLC (now Network Rail Infrastructure Limited) by Network Rail Holdco Limited. Tranche B is for the subscription of shares in Railtrack PLC (now Network Rail Infrastructure Limited) to allow it to make payments in respect of premia payable in connection with the redemption of bonds issued in the capital markets. Tranche C is for the purpose of refinancing the indebtedness of Railtrack PLC (now Network Rail Infrastructure Limited) and its subsidiaries, funding the acquisition of the right to operate the St Pancras Concession and funding of the acquisition of the operational, management and maintenance services in respect of the Channel Tunnel Rail Link project.

The revolving credit facility is for the working capital purposes of the Group and to finance payments of interest due on the facility.

17. Other creditors: Amounts falling due after more than one year

	Group 31 March 2003 £m	Company 31 March 2003 £m
Bank loans	1,440	-
Finance leases and hire purchase contracts	41	-
Capital grants deferred income	890	-
SRA development income	84	-
Other accruals and deferred income	13	-
	2,468	-

Bank loans are analysed as follows:

	Group 31 March 2003 £m	Company 31 March 2003 £m
HSBC Bank due 2017 repayable by instalments	221	-
Barclays Bank due 2017 repayable by instalments	62	-
Royal Bank of Scotland due 2017 repayable by instalments	71	-
European Investment Bank due 2007	100	-
6.42% European Investment Bank due 2009	107	-
6.42% European Investment Bank due 2011	107	-
5.77% European Investment Bank due 2012	317	-
5.57% European Investment Bank due 2013	210	-
Kreditanstalt für Wiederaufbau due 2013	145	-
Kreditanstalt für Wiederaufbau due 2015	100	-
	1,440	-

18. Financial instruments

The Group's funding treasury operations ("Treasury") are co-ordinated and managed in accordance with policies and procedures approved by the board. Treasury is subject to regular internal audits and does not engage in trades of a speculative nature. The market and legal limitations imposed as a result of the railway administration order have now been lifted.

Treasury has a board approved counterparty list which contains the entities with whom it may invest cash and transact derivative business. Limits are set with reference to published credit ratings. These limits dictate how much and for how long Treasury may deal with each counterparty.

The Group has a policy of immediately hedging all identified foreign exchange exposures over £250,000 or equivalent. Since the exit from administration of Network Rail Infrastructure Limited (formerly Railtrack PLC), the Group has hedged its foreign exchange exposures in accordance with this policy.

Unless specifically stated, the following disclosures exclude short term debtors and creditors. Debts are analysed by repayment date.

	Group 2003 £m
Due within one year	
Bank loans and overdrafts	**8,449**
Finance leases and hire purchase contracts	**-**
	8,449
Due within one to two years	
Bank loans and overdrafts	**22**
Finance leases and hire purchase contracts	**1**
	23
Due within two to five years	
Bank loans and overdrafts	**196**
Finance leases and hire purchase contracts	**2**
	198
Due after five years	
Bank loans and overdrafts	**1,222**
Finance leases and hire purchase contracts	**38**
	1,260
Total	
Bank loans and overdrafts	**9,889**
Finance leases and hire purchase contracts	**41**
	9,930

Interest rates on borrowings

The interest rate exposure on gross borrowings at 31 March 2003 was:

	Floating borrowings	Fixed borrowings	**Total**	**Fixed borrowings** Weighted average interest rate	Weighted average time for which rate is fixed
	£m	£m	**£m**	%	Years
31 March 2003	9,189	741	9,930	5.90	9.0

All borrowings are all denominated in sterling. The floating rate borrowings are all referenced to London Inter Bank Offered Rate (LIBOR).

Interest rates on other financial liabilities

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

Investment in financial assets

Interest bearing assets at 31 March 2003 were:

	Floating rate investments	Fixed rate investments	**Total**	**Fixed assets with fixed rates** Weighted average interest rate	Weighted average time for which rate is fixed
	£m	£m	**£m**	%	Years
31 March 2003	143	81	224	5.94	4.7

The rates achieved on the above floating rate investments are set at the time of investment with reference to indices such as LIBOR.

Included in the above analysis are assets belonging to Network Rail Insurance Limited (formally Railtrack Insurance Limited) (£121million). Not included in the above analysis are monies held in escrow client accounts (£1million).

The Group has no long term non-interest bearing financial assets.

Committed facilities

At 31 March 2003 the Group had the following committed undrawn facilities:

	2003 Drawn £m	2003 Undrawn £m	**2003 Total £m**
£9billion bridge facility	8,438	562	**9,000**
SRA support facility A	-	4,000	**4,000**
SRA support facility B	-	3,000	**3,000**
	8,438	7,562	**16,000**

Undrawn committed borrowing facilities expire as follows:

	2003 £m
Within one year	**562**
Within one to two years	**3,000**
In more than two years	**4,000**
	7,562

Not included in the above analysis are the £800million European Investment Bank and £250million Kreditanstalt für Wiederaufbau facilities as these were fully drawn as at 31 March 2003.

In addition to the facilities above, there are two support facilities provided by the SRA for £800million and £250million. The use of these facilities is limited to the repayments of the EIB and KfW facilities should this become necessary.

Uncommitted facilities

The Group has a £25million overdraft facility and a £25million money market line with its clearing bank.

Fair value

A comparison of current and book values of all the Group'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.

	2003 Book value £m	2003 Fair value £m
Assets/(liabilities)		
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	**-**	3

Gains and losses on hedges

The Group immediately enters into forward foreign currency contracts to eliminate the currency exposures (in excess of £250,000 equivalent) that arise on purchases denominated in foreign currencies as soon as the exposure is known. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

These gains and losses are anticipated to be recognised as follows:

	2003 Gains £m	2003 Losses £m	**Total net gains/ (losses) £m**
Gains and losses arising in the current period that were not recognised in the current period	3	-	**3**
Unrecognised gains and losses on hedges at 31 March	3	-	**3**
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**

Currency analysis of net assets

All material net assets are denominated in sterling.

Market and credit risk

The Group holds a mixture of fixed and floating rate debt. The Group is exposed to upward movements in interest rates because it has floating rate debt in excess of floating rate assets.

The Group is also exposed to credit risk. The Group invests surplus cash and undertakes derivative and foreign exchange transactions with board approved counterparties. Each counterparty has a credit limit which is set by the board based upon published credit ratings. These limits are designed to mitigate the concentration of credit risk. They are monitored on a regular basis.

19. Provisions for liabilities and charges

	At 22 March 2002 £m	Acquisitions £m	Utilised in period £m	Provision raised £m	Provision released £m	At 31 March 2003 £m
Deferred tax (note 20)	-	488	(35)	-	-	**453**
Pension	-	194	-	41	(10)	**225**
Environmental liabilities	-	41	(3)	-	-	**38**
Other	-	83	(27)	-	-	**56**
	-	806	(65)	41	(10)	**772**

The Group and Company 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 Company to clear up these sites. Following a review of the planned expenditure, it is estimated that the provision will be entirely utilised within two to three years. In addition, the Group and Company have provided against a number of commercial claims from third parties for which settlement is expected to be achieved in the next one to two years.

20. Deferred taxation

	£m
At 22 March 2002	**-**
Acquisitions	**488**
Deferred tax credited to the profit and loss account	**(35)**
At 31 March 2003	**453**

	31 March 2003 £m
Accelerated capital allowances	**959**
Short term timing differences	**(114)**
Tax losses carried forward	**392**
Provision for deferred tax	**453**

The amounts of deferred taxation not provided in the financial statements are as follows:

	£m
Rolled over gains	**184**
Revaluation of fixed assets	**414**
Deferred taxation provided at 30%	**598**

The £184million 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 rollover relief into assets vested in Railtrack PLC (now Network Rail Infrastructure Limited).

There is insufficient historical information to calculate a provision for deferred taxation in respect of the revaluation of fixed assets. However the potential maximum provision would be £414million.

No provision has been made in respect of deferred taxation in relation to these gains as no liability is expected to arise.

21. Group and Company reserves

	Revaluation reserve £m	Profit and loss account £m	**Total £m**
At 22 March 2002	-	-	**-**
Revaluation of the railway network during period	698	-	**698**
Retained loss for the financial period	-	(116)	**(116)**
At 31 March 2003	698	(116)	**582**

The Company made neither a profit nor a loss in the financial period.

The Company is limited by guarantee and has no share capital. The Company does not have shareholders, but has members. Members of the Company have a liability to contribute the sum of £1 each in the event of the winding up of the Company in circumstances where it cannot meet its debts in full.

22. Reconciliation of movement in shareholders' funds

	£m
Loss for the financial period	**(116)**
Revaluation of the railway network	**698**
Net increase in shareholders' funds	**582**
Opening shareholders' funds	**-**
Closing shareholders' funds	**582**

23. Historical cost profits and losses

	Period from 22 March 2002 to 31 March 2003 £m
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	**(886)**
Historical cost loss for the period accumulated after taxation	**(845)**

24. Capital commitments

	31 March 2003 £m
Capital expenditure commitments contracted for (including the capital value of finance lease commitments) not provided for in these financial statements	1,873

25. Operating lease commitments

	31 March 2003 £m
Land and buildings	
Leases which expire:	
Within one year	2
Within two to five years	7
After five years	16
	25
Other	
Leases which expire:	
Within one year	40
Within two to five years	8
After five years	-
	48
Total	
Leases which expire:	
Within one year	42
Within two to five years	15
After five years	16
	73

26. Reconciliation of operating loss to net cash outflow from operating activities

	Period from 22 March 2002 to 31 March 2003 £m
Operating loss	(17)
Depreciation and amortisation (net of capital grants amortised)	198
Increase in stocks	(2)
Increase in debtors	(340)
Increase in creditors	148
Decrease in provisions	(1)
Net cash outflow from operating activities	(14)

27. Analysis of changes in net debt

	At 22 March 2002 £m	Acquisitions (excluding cash) £m	Cash Flows £m	**At 31 March 2003 £m**
Cash at bank and in hand	-	-	8	**8**
Borrowings due within one year	-	(4,986)	(3,463)	**(8,449)**
Borrowings due after one year	-	(3,141)	1,660	**(1,481)**
Current asset investments	-	411	(233)	**178**
	-	(7,716)	(2,028)	**9,744**

28. Reconciliation of net cash flow to movement in net debt

	Period from 22 March 2002 to 31 March 2003 £m
Increase in cash in the period	**8**
Cash inflow from increase in debt and lease financing	**(1,803)**
Cash inflow from decrease in liquid resources	**(233)**
Change in net debt resulting from cash flows	**(2,028)**
Liquid resources acquired with subsidiaries	**411**
Borrowings acquired with subsidiaries	**(8,127)**
Movement in net debt in the period	**9,744**
Net debt at 22 March 2002	**-**
Net debt at 31 March 2003	**9,744**

29. Related party transactions

The Company is taking advantage of the exemption granted by paragraph 3(c) of FRS 8 not to disclose transactions with companies within the Network Rail Limited Group which are related parties.

The results of Network Rail Limited are being consolidated by the SRA. Transactions with the SRA include receipt of grant payments, rental payments for leasehold buildings, and David Bailey, a director of the SRA, is also a director of the Company.

Company Information

Network Rail Limited

Financial calendar 2003/04

31 March 2003	Publication of 2003 Business Plan
28 May 2003	Preliminary Results announcement
23 July 2003	Annual General Meeting in Glasgow
November 2003	Results for half year to 30 September 2003 announced
31 March 2004	Publication of 2004 Business Plan

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