Network Rail Limited
Annual report and accounts 2013

Delivering through partnerships

A better railway for a better Britain

Network Rail and FirstGroup working together to deliver Reading station area improvements

Investing in the Western route

Our modernisation of the Great Western is the biggest investment since it was built, benefiting passengers, businesses, freight users and communities all along the line.

"During reconstruction of the new station we managed to maintain an operational timetable with Network Rail, which demonstrates a good relationship all the way through the project. We now have a brand new station fit for the 21st century."
Lauren Marshall, Welcome Host for First Great Western, Reading station

"We have a positive relationship with train operating companies. The TOCs are close to what is going on, they understand the complexity in delivering major work programmes, they really understand and appreciate Network Rail and there are some good relationships there."
**Jason Hamilton,
Project Manager, Reading**

These are only the highlights of our plan for the Great Western. Our investment covers updating outmoded signal boxes to state-of-the-art signalling systems, electrification of the route, restoring the historic roof of Paddington station and the modernisation of one of the UK's busiest stations at Reading.

To see the bigger picture, visit our website at **networkrail.co.uk/thegreatwestern**

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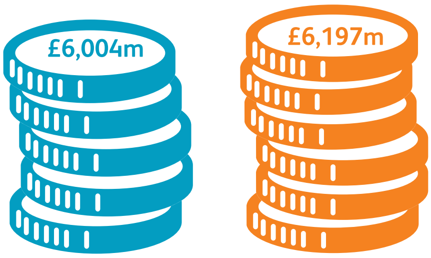
Group overview

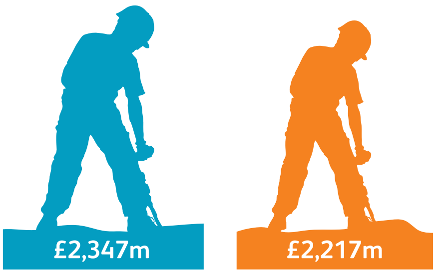
Network Rail is the not for dividend owner and operator of Britain's railway infrastructure, which includes the tracks, signals, tunnels, bridges, viaducts, level crossings and stations – the largest of which we also manage. We aim to provide a safe, reliable and efficient rail infrastructure for freight and passenger trains.

Revenue in the year



2011/12 2012/13

Operating profit



2011/12 2012/13

£699m

Profit after tax – down £62m from 2011/12

£5,050m

Capital expenditure – up £450m from 2011/12

£30,358m

Net debt at year end – up £3,076m from 2011/12

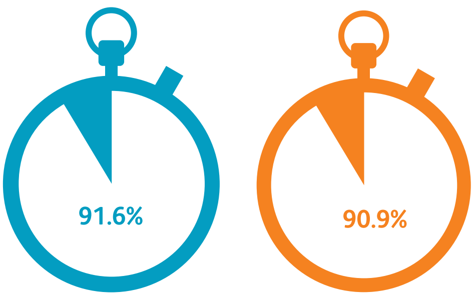
65.1%

Gearing ratio (regulatory debt to regulatory asset base)

£2,570m

Operating costs, excluding depreciation – 2011/12: £2,347m

Passenger trains arriving on time



2011/12 2012/13

Group at a glance

Our routes

We are divided into ten routes to enable us to work closely with the train and freight operating companies.

Every year we measure their satisfaction with our overall performance. The overall score for 2012 was 66 per cent (train operators: 67 per cent, freight operators: 60 per cent), an improvement from 2011 when the score was 43 per cent (train operators: 42 per cent, freight operators: 57 per cent).

Every year we also survey managed station users' satisfaction jointly with Passenger Focus. The score for Autumn 2012 was 85 per cent compared with 81 per cent for Autumn 2011.

01 Scotland

Train operating companies
CrossCountry
East Coast
First ScotRail
First TransPennine Express
Virgin Trains

Managed stations
Edinburgh Waverley
Glasgow Central

Overall satisfaction (%)	56

02 London North Eastern

Train operating companies
CrossCountry
East Coast
East Midlands Trains
First Capital Connect
First TransPennine Express
Grand Central
Hull Trains
Northern

Managed stations
King's Cross
Leeds City

Overall satisfaction (%)	80

03 East Midlands

Train operating companies
CrossCountry
East Midlands Trains
First Capital Connect
Northern

Overall satisfaction (%)	79

04 Anglia

Train operating companies
c2c
CrossCountry
East Midlands Trains
First Capital Connect
Greater Anglia
London Overground

Managed stations
Fenchurch Street
Liverpool Street

Overall satisfaction (%)	80

05 Kent

Train operating companies
First Capital Connect
Southeastern
Southern Railway

Managed stations
Cannon Street
Charing Cross
London Bridge

Overall satisfaction (%)	80

Network Rail (High Speed)
Train operating companies
Eurostar
Southeastern

Operated stations
Ebbsfleet International
St Pancras International
Stratford International

06 Sussex

Train operating companies
First Capital Connect
First Great Western
London Overground
Southeastern
Southern Railway

Managed station
Victoria

Overall satisfaction (%)	42

07 Wessex

Train operating companies
CrossCountry
First Great Western
Island Line
London Overground
Southern Railway
South West Trains

Managed station
Waterloo

Overall satisfaction* (%)	48

*Not including South West Trains

08 Western

Train operating companies
Arriva Trains Wales
Chiltern Railways
CrossCountry
First Great Western
Heathrow Express
London Midland
South West Trains

Managed station
Paddington

Overall satisfaction (%)	71

09 Wales

Train operating companies
Arriva Trains Wales
CrossCountry
First Great Western
London Midland
Virgin Trains

Overall satisfaction (%)	49

10 London North Western

Train operating companies
Arriva Trains Wales
Chiltern Railways
CrossCountry
East Midlands Trains
First ScotRail
First TransPennine Express
London Midland
London Overground
MerseyRail
Northern
Southern Railway
Virgin Trains

Managed stations
Birmingham New Street
Euston
Liverpool Lime Street
Manchester Piccadilly

Overall satisfaction (%)	61

Freight operating companies and others

Colas Rail
DB Regio Tyne & Wear
DB Schenker
Devon and Cornwall Railways
Direct Rail Services
Europorte
Freightliner Group
GB Railfreight
London Underground

Our rail infrastructure projects delivery business

We are working with our customers to transform the railway, resulting in better stations, better journeys and more capacity. This map shows just some of the improvements.

Locations

01 **Forth Bridge**
This iconic bridge won't need painting again for at least 20 years

02 **Newcastle (Northern Hub)**
More trains and better connections

03 **Leeds (Northern Hub)**
More trains and better connections

04 **Liverpool**
Major improvements to Liverpool Lime Street, Liverpool Central station and the Underground

05 **Manchester Victoria**
A dramatically improved station for passengers

06 **Sheffield (Northern Hub)**
More trains and better connections

07 **Nottingham Hub**
A new integrated transport hub, with station improvements

08 **Stafford – West Coast Main Line**
A new bypass to increase trains, but it won't solve capacity problems further south

09 **Birmingham New Street**
A radical overhaul, bringing significant wider regeneration benefits

10 **Bletchley – West Coast Main Line**
A major programme of renewals and resignalling

11 **Loughor**
New viaduct and doubling the railway lines will remove the current bottleneck and provide future capacity

12 **Reading**
Unlocking a key bottleneck on the Western route and rebuilding the station

Routes

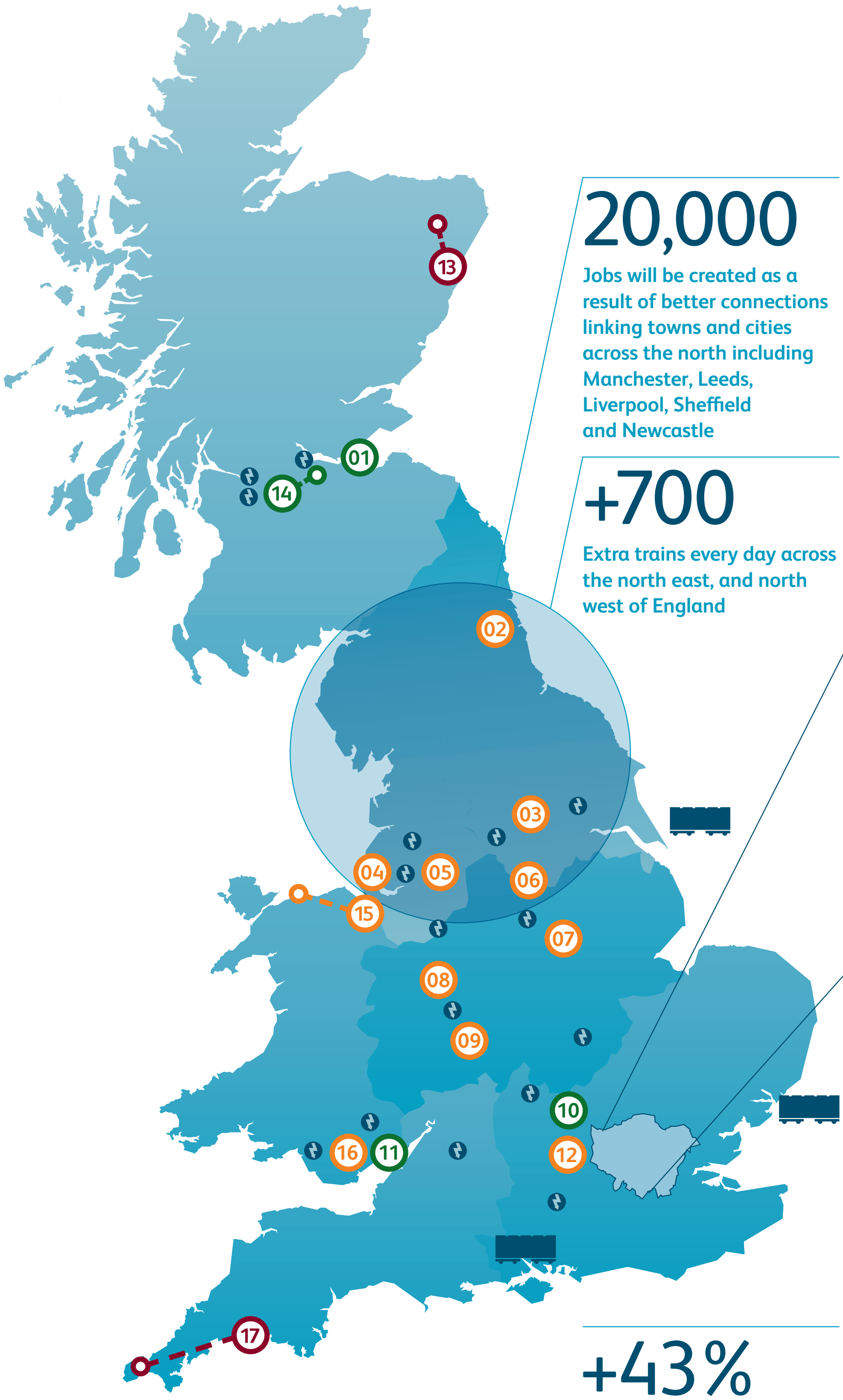
13 **Aberdeen – Inverness**
Enhanced commuter services

14 **Airdrie – Bathgate**
The longest new section of passenger railway in the UK for over 100 years

15 **Flint – Llandudno**
A major resignalling programme to improve passenger journeys

16 **Cardiff area**
A major resignalling programme including station and track upgrades

17 **Plymouth – Penzance**
Resignalling as part of a long-term programme across the south west



20,000
Jobs will be created as a result of better connections linking towns and cities across the north including Manchester, Leeds, Liverpool, Sheffield and Newcastle

+700
Extra trains every day across the north east, and north west of England

+43%
Capacity in London and the south east

Greater London

18 **King's Cross**
A spectacular redevelopment of this Grade I listed station

19 **Paddington**
Restoration of an historic roof and Crossrail improvements

20 **Farringdon**
A new interchange – linking Thameslink, the Underground and Crossrail

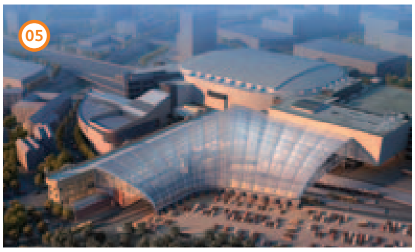
21 **Stratford**
Transformed ahead of London 2012

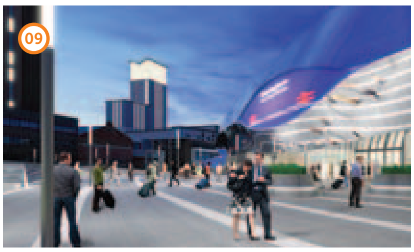
22 **London Blackfriars**
London Blackfriars – the first station to span the Thames

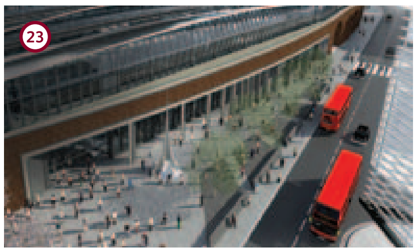
23 **London Bridge**
More space for passengers and trains

Key

Completed
In progress
Future development
Ports served by improved freight routes
Electrification of key routes
Crossrail route
Thameslink route



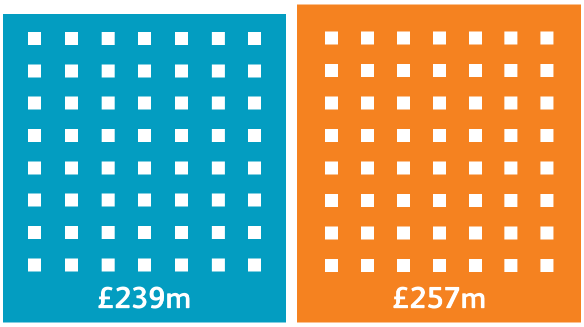




Our commercial property business

We are the largest small business landlord in the UK, with a national portfolio of over 7,400 properties. We work with our partners to promote regeneration around our stations and improve passengers' journey experience.

Commercial property income



2011/12 2012/13

Occupancy rates at our business space estate

2011/12: 92% 2012/13: 95%

2%

Like-for-like retail sales growth – British Retail Consortium reported average growth on the high street was 0.6 per cent

505,000 sq ft

Retail space at our managed stations
2012: 459,000 sq ft

London Waterloo station

We are applying an innovative approach to our property portfolio, profits from which are reinvested into the network.

A £25m enhancement scheme at Waterloo has transformed the station and smoothed the journey for passengers. The creation of a 220 metre balcony has removed retail units from the concourse, reducing congestion and improving passenger access whilst still providing the facilities expected at a modern travel hub.

In December 2012, the National Passenger Survey showed that customer satisfaction at Waterloo has soared by 11 per cent.

Chairman's statement

As chairman of Network Rail, I am acutely aware of the central role the railway plays in British life, and the health and well-being of the nation as a whole.

Richard Parry-Jones
Chairman

"Safety is at the core of everything we do. The risk of death or injury from accidents on the railway for our passengers, workforce and members of the public remains our number one priority."

Pioneers of the industry two centuries ago, the railway in Britain today remains integral to millions of people's lives, and to the general conversation that plays out in so many ways, and in so many places, across the country.

Whether people are travelling to and from work, or to visit their family and friends, or simply turning on the lights in their homes, they depend on our industry. Even the very geography of Britain has been shaped by the railway.

It is clear that one thing has changed beyond recognition since the middle years of the 20th century. Then, of course, the task was to manage decline in a way that would prove less of a drain on the public purse. Now, there is a new sense of confidence, and this has perhaps been one of the most striking things to me as a newcomer. The challenges I find myself discussing so much of the time would have been unimaginable half a century ago. How do we deal with ever increasing demand? How can we embrace technology and accelerate the modernisation of our industry? What do we need to do to build for the future?

These challenges, of course, confront Network Rail more than they do any other part of the industry. The company passed its 10th anniversary in October and has been developing a clear strategy and direction to guide us through the second decade.

There is no longer a need to focus on how to wrestle the industry out of the crisis in which it found itself in back in 2002, Instead, the company has now defined an unambiguous purpose, role and vision for itself, which is set out on page 10.

David Higgins, in his chief executive's review, and Patrick Butcher, group finance director, will both set out more details of the company's performance over the year in their own contributions to this report. David and Patrick are just two of what is now an extremely gifted and well-established team at the top of Network Rail, confident in the company and the potential for our industry as a whole.

There has been an even greater focus on the future over this year than is usual. The production of the Strategic Business Plans for England and Wales and for Scotland for the next control period from 2014 to 2019 was a critical exercise for the company. They provide a comprehensive and considered response to the High Level Output Specifications published by governments last July.

The Office of Rail Regulation has, in just the last week, published its initial view on those plans. David Higgins will discuss this to a greater extent in the following pages, but it is right that the company takes the time to reflect on the implications and understand the reasoning behind the determination.

It is undeniable that the plans in the round reflected the benefits of stronger relationships not just with governments in London, Edinburgh and Cardiff but with our many and varied stakeholders including, of course, our customers. We know as an industry we are riding a wave of consensus that investment in our transport, and specifically rail, infrastructure is essential for our economy, and we recognise that we need to earn the right to continue to secure that support and accompanying investment. The endorsements from governments not just in the High Level Output Specifications, but in the developing plans for High Speed 2, demonstrate this consensus remains in place. Our infrastructure, which in many places would still be recognisable to the Victorian engineers who built it, needs perhaps two to three decades of sustained strategic investment to meet the challenges ahead. That will only be forthcoming if we can demonstrate to funders, including the citizens of this country, that we are a horse worth backing.

A key demonstration of the company's willingness to be held accountable for its plans, its activities and its results has been the programme of transparency. More details will follow later in this report, but transparency is rightfully a focus for David Higgins and the executive team given the level of support the company receives on behalf of the taxpayer.

On the board, over the year we are all focused on having an open and engaged, challenging and constructive dialogue about the business, both operationally and strategically, and delivering excellent stewardship of the company. We strive to strike the right balance between a commitment to rigorous and forensic challenge; a genuine understanding of the complexities and constraints within which the management team operate; and a desire to see the company continue to improve its performance against all its key accountabilities.

"As we head toward the middle of the second decade of the 21st century, we're committed to providing unending diligence, focus and plain hard work."

There are details further on in this report from all the board sub-committees on their key areas of focus and activity over the year. In general, however, all the non-executives have sought to improve assurance that the executive has well-defined, credible strategies and plans to deliver what they need to deliver both in the short-term and into the future. This includes, of course, safety of our workforce and the public, and it has been heartening to see the emphasis the company continues to place on improving safety.

Now, as we head towards the middle of the second decade of the 21st century, those of us in the industry can sense the potential. To realise that potential will require unending diligence, focus and plain hard work, something I know the team at Network Rail is resolutely committed to providing.

Richard Parry-Jones
Chairman
5 June 2013

Our group strategic framework

We have bold plans. Delivering them requires not just sustained investment in our infrastructure but also in our people, addressing the culture of our organisation. The following statements set out where we are going and the importance of our employees in this.

Our purpose
(Why we exist)

To generate outstanding value for taxpayers and customers

We do not pay dividends to shareholders. Instead, we reinvest our profits to make the railway better. As a company that relies on public funding and ticket revenues, we must always remain accountable to taxpayers and passengers.

Our role
(What we do)

A better railway for a better Britain

A 'better railway' means a safer, more reliable railway, with greater capacity and efficiency. 'Better Britain' means a thriving, sustainable, low-carbon economy with better connections between people and jobs.

Our vision
(What we want to be)

To be a trusted leader in the rail industry

This is our ambition – the type of organisation we want to be five to 10 years from now. Trust is the key word: we want to be a trusted leader working in close collaboration with our partners. And we know that trust must be earned.

Our strategy
(How we are going to do it)

To work with our partners and use our full potential to improve safety, reliability, capacity and value for customers and taxpayers

Our priorities are safety, reliability, capacity and value for customers and taxpayers. To deliver this we need to unlock the potential and expertise of our people – creating an environment that promotes diversity, accountability and gives opportunity. By investing in our people we aim to become an employer of choice, attracting the best talent.

Our behaviours
(How we need to work)

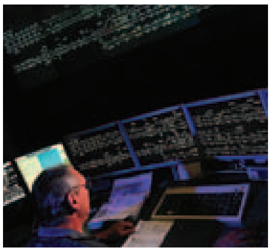
We will only be successful if we are customer-driven, accountable, collaborative and prepared to challenge.

Our strategic themes

We have identified 10 key themes central to our plans for a better railway for a better Britain. Against each of these we have made a commitment, which we want to be held to account on.

1 Everyone home safe every day
'By putting safety at the heart of how we design, manage and maintain our railway we will reduce safety risks for passengers, the public and our workforce not just in the next five years but for generations to come.'

2 Reliable infrastructure
'We will go from being world class in taking care of our track to becoming a world leader in the management of all of our assets.'



3 Reliable timetables
'We will continue to transform how we timetable and operate the railway, enabling us to deliver a better service for all.'

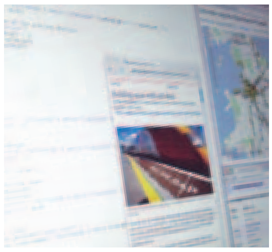
4 The biggest investment since the Victorian era
'We will deliver the biggest capacity increase on the railway for 100 years, benefiting people and businesses across Britain.'

5 A technology-enabled future
'Investing in technology will transform our knowledge of the railway making us better at targeting when, where and how we improve it.'

6 A customer-focused organisation
'Structuring our organisation to give clearer accountability to local people who best understand the needs of our customers will help us become a more flexible, collaborative company.'

7 Investing in our people
'We will create an environment that promotes accountability, opportunity and diversity. This will help us to become an employer of choice.'

8 Opening up
'We will become an open and accessible organisation which understands, and helps others to understand, the issues shaping the future of the railway.'



9 A railway fit for the future
'By placing sustainability at the heart of everything we do, we will make our business more efficient, protect the value of our assets, and deliver a railway fit for future generations.'

10 Reducing public subsidy
'We will continue to reduce public subsidy of the railway.'

Chief executive's review

The Olympic and Paralympic Games last summer saw the railway industry at its best – working together in a way that not only ensured the success of the Games, but also contained many lessons for the future.

David Higgins
Chief executive

"We have the most intensely used railway in Europe with critical parts now running at close to 100 per cent capacity."

Last summer we managed to use the network more intensively than ever before for the 2012 Olympic and Paralympic Games. There were more trains, longer trains and scores of travel champions at all of our London stations. The railway outperformed itself and our people played a huge part in making the Games the overwhelming success they were.

But the remarkable achievement of the rail industry was the result of rigorous preparation and planning, all directed towards a six week period. We put in place new protocols, additional teams on call to respond to problems, and – potentially the single greatest change we made for these six weeks – we postponed all disruptive maintenance work. However, this postponement could not have been sustained for any longer.

The maintenance holidays under British Rail and Railtrack have underlined the importance of regularly maintaining the railway – for both safety and the long-term cost of the railway.

It was within this context that we published our Strategic Business Plan in January, setting out our proposals for the railway up to 2019. Since then, almost 200 meetings have been held with the Office of Rail Regulation (ORR) ahead of the publication in June of their emerging view of our required funding and outputs for this period; and we will continue this dialogue throughout the rest of this year, ahead of the regulator's final determination in October.

Therefore, this year has been one of looking forward and planning, not just for the future of the rail network but also for the future of the railway's place in Britain and the role it plays in helping to deliver sustainable economic growth.

Our railway has seen a decade of unprecedented growth of the kind that would be the envy of other industries. Passenger demand has increased by 50 per cent over the last 10 years and, by 2020, another 400 million journeys will be made every year.

The challenge we face is one of success and we have a responsibility to respond to this by building new capacity. However, the economic times in which we live mean that alongside delivering new capacity we need to keep a constant drive for improved efficiency – delivering more for less to create a railway that is more financially sustainable. These twin challenges of building capacity and driving efficiency, alongside our continued drive to improve performance, lie at the heart of the Strategic Business Plans and the future of the company. For more detail on our strategic framework and themes, see pages 10 and 11.

Closing level crossings

We've closed the 600th level crossing as part of our £130m investment plan to improve safety and reduce risk on the railway.

95%

of passengers felt that rail travel during the Olympics had exceeded or met their expectations.

As we look forward and plan for the future we must also remember the most important lesson of the past: that the success of the rail industry is built on safety. Research carried out by the European Commission this year showed that Britain now has the safest railway of all EU countries. This is something we are immensely proud of, but we will never allow ourselves to become complacent.

In the last year the tragic accidental death of a young girl at Beech Hill was a painful reminder of the profound effect events on the railway can have on families, communities and our staff.

We also experienced the incredible sadness of losing one of our own people and one of our contractors. In November, Charlie Lamont was killed in a road traffic accident while travelling to a work site. And in December, Scott Dobson, who was a member of our Great Northern Great Eastern project team working for Sky Blue on contract to Carillion, was struck by a train while on duty.

We know there is nothing we can say or do to lessen the pain felt by those families and staff affected but we will work tirelessly to prevent such accidents happening again. Let me be very clear: we will never allow there to be a trade-off between safety and any part of running the railway. It is our absolute priority to get everyone home safe every day.

This year we took important strides forward in further improving safety. Amongst these was the closure of the 600th level crossing, as part of our £130m investment plan to improve safety and reduce risk on the railway. We also introduced 11 lifesaving rules to our employees with the aim to eliminate fatal and life-changing injuries on the railway.

Train performance continued at historically high levels, customer satisfaction improved to its highest ever level and passenger complaints fell for the 10th year in succession. However, the challenging weather conditions – which saw parts of the network suffer first from extended drought and then from unprecedented rainfall and flooding – meant we missed the regulatory train performance target for the year, with England and Wales deteriorating compared to last year while Scotland improved slightly and outperformed on its regulatory target.

However, even before the severe weather, we had already recognised that we would not be meeting our train performance or delay minutes targets at the end of the control period. This is in part because of the success our industry has had in attracting an ever growing number of passengers, and the effect more trains have on the resilience of the network to recover from delays. Nevertheless, it is our responsibility to focus on driving up performance where possible; and we expect to achieve all our other regulatory targets, including asset condition and safety.

London Bridge station
The scale of improvements is huge and impacts a railway busier than ever. London Bridge is an example of the difficulties of improving work on a live railway. Around seven per cent of all trains go through London Bridge station and the interconnectivity of the railway means that work here has the potential to impact over 25 per cent of overall national performance.

"We will never allow there to be a trade off between safety and any part of running the railway."

Maintaining a safe and reliable network lies at the heart of our role as custodian of the nation's railway. However, managing the legacy of a railway that was substantially built in Victorian times is a relentless challenge. This challenge is made even greater by the decades of underinvestment and neglect that the railway suffered before the renaissance it enjoys today.

So we are currently halfway through an unprecedented programme to replace outdated equipment and renew structures. We need a railway that is technologically better able to cope with the huge number of trains that run today and structurally more resilient to the extreme weather we are seeing with increased frequency. The impact of these events underscores the vital importance of our work to better understand our assets and to invest in them. We should never be afraid to make the case for investment today if it saves money in the future.

Investment in reliable infrastructure must also go hand in hand with building a resilient timetable.

This is particularly important in Britain as we have the most intensively used railway in Europe. Critical parts of our network now run at close to 100 per cent capacity and the impact of this is significant. Similar to a busy motorway, even the smallest delay can have a huge knock-on impact. This means that if you cram trains too closely together there is no flexibility and it becomes harder to recover from delays.

We can, however, do more to make the best of the limited space we have on the network. This year, for example, we continued to make real progress in the delivery of our operating strategy. By consolidating signalling and control activity into 14 modern Rail Operating Centres over the next 15-30 years, we will be able to deliver more reliable performance and make significant improvements in how quickly we can recover from delays.

We are also investing to deliver a quantum leap in the application of technology. Intelligent infrastructure is quite simply a game changer. It leads to smarter working, lower costs, improved safety and better reliability.

We have not invested enough in research and technology in the past but we have begun to make up for lost time. Innovative new ways of inspecting our railway are already enabling us to better target work, moving from a 'find and fix' approach to one where potential problems are spotted and dealt with before they happen. This year we completed the roll-out of 8,000 handheld devices with bespoke apps to log and record vital information, which has replaced millions of paper-based inspection records. And this is just the beginning. By 2019 we will be investing more per year in technology than comparable British companies.

Improving resilience and reliability to make the best of what we have is absolutely the right thing to do. But the only answer to a railway running out of space and still facing huge demand is sustained strategic investment to build new capacity. In July, the Government recognised this in its High Level Output Statement which signalled its support for continued rail investment. This backed our plan to deliver the biggest capacity increase on the railway for 100 years. This includes completing Thameslink and Crossrail, delivering the Northern Hub and investing more than £4bn per year to improve the railway and to deliver 170,000 extra commuter seats at peak times by 2019. Our proposed renewals programme for the next control period is larger than all of the UK's power distribution companies and the National Grid's gas and power networks combined.

The scale of the improvements we are committed to making is huge but we should be upfront about the impact it will have on a network that is busier than ever. London Bridge station, for example, which we are rebuilding as the last major stage of delivering Thameslink, is a key example of how difficult it is to carry out improvement work on a live railway. Around seven per cent of all trains that we run every day go through London Bridge. On its own this is a significant proportion, but the interconnected nature of the network means that whatever happens at London Bridge actually has the potential to impact on 25 per cent of overall national performance.

To put this further into perspective, rebuilding London Bridge station is the equivalent of rebuilding two stadia the size of Wembley in the middle of central London while trying to host football matches at both twice a day. It is a mammoth undertaking and there is a huge responsibility on us to deliver the work with as little disruption as possible.

Rising to the challenges we face can only be done by changing the way we work. We are working more collaboratively with our suppliers and becoming more competitive in the way we deliver projects. This is key to changing the culture of our company.

However, we are making real progress: supplier satisfaction continues to improve, with 72 per cent of our suppliers either satisfied or very satisfied in compared to 45 per cent in 2010.

As a sign of our commitment to develop better relationships with train operators and improve reliability on all of our routes, we have expanded the number of alliances. We want staff to use local expertise to make judgments that are right for the route, rather than following a one size fits all approach. This has brought us closer to our customers and passengers, while allowing us to look to improve service and safety for all users of the network.

A further sign of our commitment to working more closely with customers was the secondment of Chris Gibb, Chief Operating Officer of Virgin Trains to work with us on improving the performance of the infrastructure on the southern end of the West Coast Main Line.

01 **The Quadrant:MK is at the forefront of new office developments and is one of the most sustainable buildings in the country.**

02 **We've recruited and developed 1,000 apprentices and 500 graduates in the last five years.**

"Our proposed renewals programme for the next control period is larger than all of the UK's power distribution companies and the National Grid's gas and power network combined."

Our commitment to greater transparency

In the past year we have underlined our commitment to greater transparency with the unveiling of a new information portal on our website. For the first time people have easy access to a range of information about Britain's rail infrastructure operator.

networkrail.co.uk/transparency

55%

The majority of electricity supplied from our 10-year deal with EDF will be used to power electric trains, which now account for 55 per cent of rail traffic.

In the past year we also took a significant step in the development of our company with the relocation of nearly 3,000 people to Quadrant:MK, our new national centre in Milton Keynes. Quadrant:MK is at the forefront of new office developments and is one of the most sustainable buildings in the country, with a combination of cutting-edge design and the latest environmentally-friendly features. The open plan office encourages flexibility, transparency openness and dialogue. This is the kind of environment we would like everyone in the group of Network Rail businesses to enjoy, and demonstrates our commitment to investing in our greatest resource – our people.

Our award-winning recruitment programme also brought in around 950 new people into Quadrant:MK, mirroring local diversity norms for gender and ethnicity. And, in addition to signing up to partnerships with Stonewall, The Disability Forum and Women in Rail, we have agreed a diversity and inclusion policy with our trade union partners, and a bespoke leadership awareness course has been introduced.

We continue to be committed to training and we have recruited and developed 1,000 apprentices and 500 graduates in the last five years. Our award-winning three-year apprentice programme trains around 200 people a year in track, signalling, telecoms and electrification and plant, combining technical training with personal development to develop the railway leaders of the future.

We are also committed to changing our culture to one which is increasingly transparent. In the past year we have underlined our commitment to greater transparency with the unveiling of a new information portal on our website. For the first time people have easy access to a range of information about Britain's rail infrastructure operator. We recognise the need to be open about what we do as a company and the money we spend delivering a world-class rail network.

We believe transparency helps improve decision making. Given the amount of money that taxpayers put into the rail industry, it is only correct they are given the right to scrutinise where their money goes. As a result we have prioritised the publication of information that will have a particular benefit, such as informing decision making within the industry or by our customers, or increasing understanding of and trust in what we do. Categories of information we have released to date range from our equality, diversity and inclusion policy, to key safety performance indicators, to expenditure on staff travel.

Our data is also now available to web and app developers so that their innovations can help passengers plan their journeys better. The business is changing, but it is more important to change our collective mindset than simply to release data.

One of our key responsibilities is to plan for the future of the rail network. We have begun to launch a number of market studies to set out how passenger and freight demand is expected to change over the next 30 years. This reflects a new approach to developing plans for the future, and the need to understand more about how the rail industry can support sustainable economic growth and strategic change, for example, with the development of High Speed 2.

In addition, we recognise the role that rail must play in tackling climate change, and that using low carbon energy sources will help governments to achieve their 2050 carbon emissions targets. That's why we awarded EDF Energy a 10-year deal for the supply of low carbon electricity to power Britain's growing electrified rail network. The majority of electricity supplied will be used to power electric trains, which now account for 55 per cent of rail traffic. This is set to grow considerably over the coming years as we carry out work to electrify more than 2,000 track miles across Britain and bring down the cost of running the railway.

This is vital, as we must make Britain's railway financially sustainable and reduce our overall dependence on public subsidy. A combination of reducing our own costs and benefiting from the increased fares revenue that has resulted from growth in passenger numbers has already allowed us to reduce public subsidy. Network Rail exists to generate outstanding value for taxpayers and passengers. We recognise the last decade has seen votes of confidence from successive governments for investing in rail, and are keen to keep our side of the bargain by being as efficient as possible. Patrick Butcher, group finance director, will provide more detail further on in this report.

The future for our organisation lies in empowering our people – relieving them of the needless burden of too many rules and standards but balancing this new freedom to innovate with true accountability.

I am determined that we become a transparent and commercial organisation that earns the trust of the travelling public, the train and freight operators, the regulator and the Government; that is trusted when we call for investment to reduce subsidy in the years ahead; and that builds a reputation around safety, reliability and efficiency, delivering a great service for our customers, and a better railway for a better Britain.

David Higgins
Chief executive
5 June 2013

"The future for our organisation lies in empowering our people."

Group finance director's review

This year saw the company face significant operational and financial challenges as we approach the final year of our current five-year regulatory settlement which ends in March 2014.

Patrick Butcher
Group finance director

Revenue was relatively flat compared to last year due to the impact of increased compensation to train operators. Higher operating costs due to pay rises, weather related damage to the network and depreciation of a larger asset base resulted in a reduction in operating profit. A much lower charge for the revaluation of financial instruments, however, resulted in a significant increase in profit before tax.

Our asset base continued to grow as we invested in the railway; debt increased as we financed this long-term investment and our 65 per cent gearing remained comfortably below the regulatory limit of 75 per cent. The increase in net assets was less than expected as the profit for the year was largely offset by the increase in the pension deficit, largely driven by the change in the discount rate, and a reduction in the value of the railway network, largely due to an adjustment in respect of missed train performance in the year.

Overall asset condition improved in the year and our asset stewardship indicator is already ahead of the target set at the beginning of the control period. We remain concerned about the condition of our structures assets, especially bridges and embankments. We have continued to improve our asset information and update our policies such that we are better placed to focus renewals expenditure where it is needed and in a cost effective way. At the same time, Network Rail has gone though significant organisational change, with the completion of devolution of decision making to routes, restructuring of our project delivery organisation and the relocation of nearly 3,000 staff to the new national operating centre in Milton Keynes.

Against this background, in January 2013 we submitted our Strategic Business Plan to the Office of Rail Regulation (ORR). This was followed by a period of intense engagement with the regulator including over 200 meetings. The Draft Determination was issued on 12 June 2013, with the Final Determination due in October 2013.

For the year ended 31 March	2013 £m	2012 £m
Revenue	**6,197**	6,004
Operating profit	**2,217**	2,347
Profit before tax	**775**	475
Profit after tax	**699**	761
Net cash from operating activities	**2,703**	2,692
Net debt	**(30,358)**	(27,282)
Net assets	**8,013**	7,917
Railway network fixed assets	**46,411**	43,112
Value of investment property	**751**	878
Capital expenditure	**5,050**	4,600

Progress in achieving the financial targets set out in the CP4 Delivery Plan

The Strategic Business Plan incorporated the fourth and final update of our Control Period 4 (CP4) Delivery Plan, reflecting performance for the control period so far and with updated projections to March 2014.

01 Unprecedented rainfall damaged the infrastructure and resulted in delays and cancellations

Operating profits

2011/12 2012/13

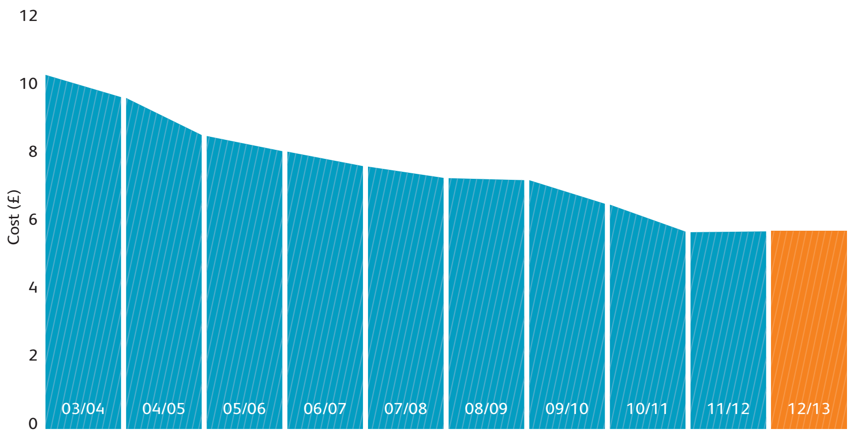
£5,050m

Capital expenditure – up £450m from 2011/12

65.1%

Gearing ratio (regulatory debt to regulatory asset base)

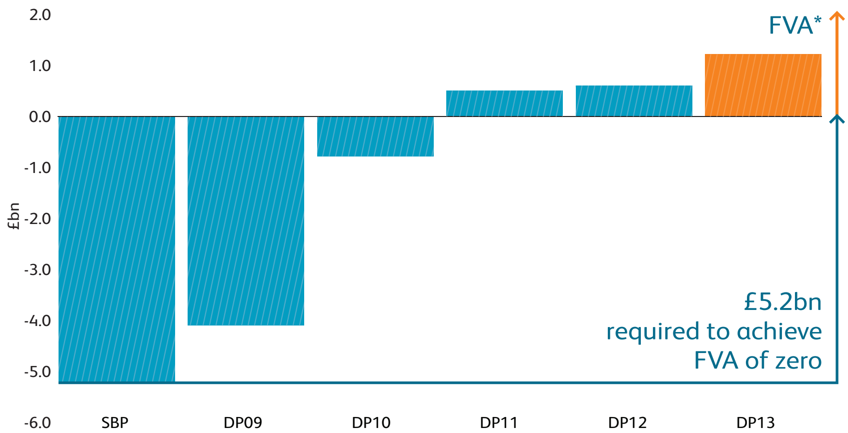
Controllable operating costs per train mile (2012/13 prices)



Financial performance compared to the regulatory settlement for the control period continues to be robust. In our Strategic Business Plan, we forecast outperformance for CP4 of £1.2bn including £0.9bn of savings on interest. This is after achieving the £4.1bn additional efficiency saving in our original CP4 Delivery Plan.

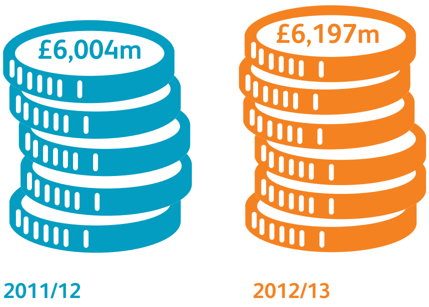
During the year, we made the first payments to train operators under the Efficiency Benefits Sharing Mechanism for a total of £16m. The mechanism gives operators a 25 per cent share of outperformance on Network Rail's operating costs, which can only be paid when the ORR has agreed that reported savings are robust.

Forecast financial outperformance for Control Period 4



* FVA shown above excludes adjustments for missed outputs

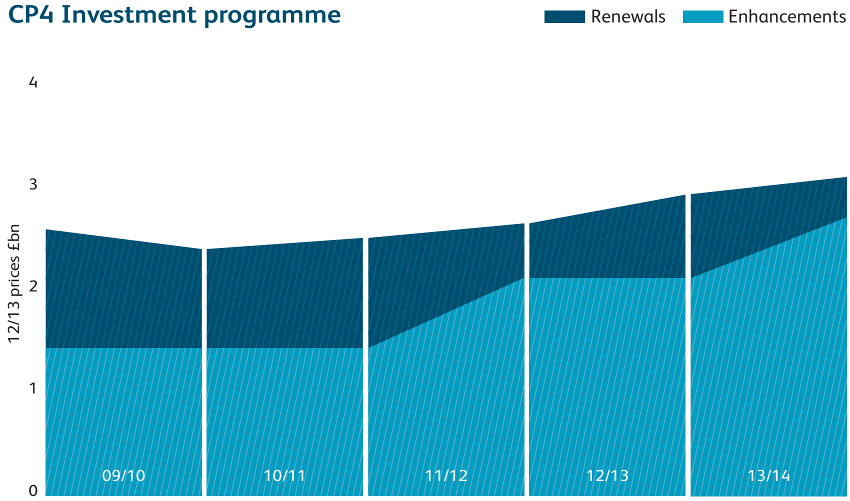
Revenue in the year



£699m

Profit after tax – down £62m from 2011/12

CP4 Investment programme



The regulatory settlement was based on achieving year-on-year savings in maintenance, operating and renewals costs against the baseline set at the beginning of the control period. Delivery challenges in the renewal of track, including industrial action in the supply chain, poor plant performance and adverse weather, meant that the volume of work delivered in the year was significantly lower than planned. With a high level of fixed cost, this resulted in a higher unit cost of track renewal than last year. Signalling renewals also saw an increase in overall spend compared to plan and consequently a lower level of efficiency than last year. The rate of efficiency savings on operating costs was affected by the additional costs incurred due to the weather conditions in the year. With traffic levels also not showing a significant increase in the year, the unit cost of running the railway remained unchanged from last year.

Significant progress continues to be made on enhancing the railway network. The Thameslink programme achieved key milestones that have increased the capacity available for services into and through London. The programme of platform lengthening means longer trains are able to operate on more of the network. The King's Cross station redevelopment is largely complete; the redevelopment of Reading station area and Birmingham New Street station are on schedule and both achieved major milestones shortly after the year end. In addition to these major projects, we are delivering minor enhancements around the network that increase capacity, reliability, accessibility and customer experience.

We have a significant delivery challenge for the year ahead. The planned expenditure of £6.1bn on renewing and enhancing the network represents a sizeable increase on the first four years of the control period. Overplanning and securing access to the railway are key features of our strategy to deliver the workload.

Looking ahead to Control Period 5

The process of reviewing our funding and outputs for the next control period will culminate in October 2013 when the ORR will publish their Final Determination. We need to consider the financial and operating challenges this will entail and how we are going to meet the demands of reducing costs while managing asset condition, improving standards and safety and increasing capacity on an increasingly busy network. At the same time we need to continue to address adverse external factors such as extreme weather, crime and suicides.

The Strategic Business Plan set out our vision for the delivery of sustainable improvements to the railway. The ORR has to evaluate the evidence and make a judgement about what level of change is sustainable and achievable. A key judgement is the proposal to amend the basis of the return on capital, which will reduce our income in the next control period and potentially beyond. Key uncertainties that remain for us include the required levels of train performance and asset condition, the level of efficiency that will be assumed, to what extent project contingencies will be included and to what extent the settlement may be segregated into the 10 operating routes.

In advance of the Final Determination, we are preparing our Control Period 5 (CP5) Delivery Plan that will set out in detail how the performance and savings set out in the Strategic Business Plan will be achieved. In addition, we are developing some of the projects to be delivered in CP5 so that we can avoid the hiatus in delivery seen after the end of Control Period 3.

Financial review of the year

Revenue

Network Rail generates the majority of its income from track access charges, revenue grants and property rental. Fixed track access charges and the revenue grant are set by the ORR and are largely fixed over the five year control period and increase in line with inflation. Variability in turnover is limited to the impact of the performance regime, property income changes and rebates to operators. Turnover for the year was 3 per cent higher than last year at £6,197m (2012: £6,004m).

Performance regime

Network Rail is expected to operate the railway reliably and the regulatory settlement sets Network Rail a target of reducing unplanned disruption year on year. When performance is less good than assumed in the regulatory settlement and this is attributable to Network Rail, compensation is paid to train operators.

While high levels of reliability are being achieved, as mentioned elsewhere, not all the performance targets are being met. As a result, payments of £136m (2012: £80m) were made to operators in respect of unplanned delays and cancellations to services. The increase reflects worse performance on key routes as well as more demanding targets.

While there is a very real risk that train performance will not achieve the regulatory target in the coming year, the combination of industry initiatives and improved external factors will see the gap between target and actual performance reduce, together with the cost of compensating operators. The ORR has, however, stated that a fine may be imposed in respect of train performance in the long distance sector in the 2013/14 financial year.

"We are developing now some of the projects to be delivered in the next control period to avoid the hiatus seen after the end of Control Period 3."

Network Rail also compensates operators for amendments to the train timetable, typically to allow work to be carried out or for the introduction of emergency timetables. Costs relating to these changes remain better than target through better planning and coordination of our infrastructure works and were £30m higher than last year due to the increased capital workload.

Property

Rental income from the property estate grew by 7.5 per cent from £188m to £203m for the year. Network Rail's strong footfall meant its retailers were able to grow sales on a like-for-like basis by two per cent. This compared favourably to high street retail which continued to face a challenging trading environment and saw several household names collapse into administration. The underlying rent roll of Network Rail's commercial estate business grew from £73m to £75m during the year. This business largely services the UK SME market and this modest growth in income against a backdrop of a decline in UK Gross Domestic Product was particularly impressive.

Significant prior year investment in the new King's Cross western concourse and a retail balcony at Waterloo station started to pay back. Not only was the rental income received, as a result of these new schemes, a major factor in the overall rental growth achieved but passenger satisfaction scores improved at King's Cross and Waterloo by 32 per cent and 11 per cent respectively.

Advertising revenues from the rail side and road side estates grew by 13.4 per cent from £27m to £30m for the year. Investment in digital technologies and increased advertising revenue during the Olympic Games were the main factors in this improved performance.

In July, The Quadrant:MK, our new operating headquarters in Milton Keynes, opened its doors. The building has been rated BREEAM 'excellent', the highest standard for environmental design. The facility is now occupied by 2,780 Network Rail employees and has allowed Network Rail to close 13, predominately leasehold, buildings.

A new serviced office joint venture with The Office Group opened its first site at Paddington station. Both occupancy and trading were significantly ahead of initial projections. As well as bringing a beautiful listed building back into use, the joint venture has been able to provide a convenient and high-quality service at a Network Rail station. There are plans for further serviced offices at King's Cross, Leeds and Liverpool Street over the coming year.

Operating costs

Operating costs increased from £3,657m last year to £3,980m this year. £113m of the £323m increase related to depreciation.

"The combination of industry initiatives and improved environmental conditions will see the gap between target and actual performance reduce."

The year saw an increase in the losses arising from weather-related incidents, compared to last year. Although storms were more frequent, the biggest costs came from sustained and excessive rainfall, which caused flooding on several parts of the network and was a contributory cause to the spoil heap collapse at Hatfield Colliery. This last incident alone resulted in a £15m loss, being the excess under our insurance policy; the total costs which are covered by insurance are not yet known but will be significantly higher. Weather aside, a lower level of redundancy costs and good budgetary management delivered savings. Finding areas for savings is, as expected, getting harder each year, however devolution of decision making to routes, enabling closer working with customers, and the restructuring of our delivery organisation, to engage better with suppliers, are intended to address this.

The average number of employees fell slightly to 35,190 (2012: 35,253). Employee costs were up £100m (6 per cent) to £1,779m. The increase reflects the one-off £74m pension credit in last year's results; excluding this credit, average staff costs increased 6 per cent to £50,554.

The depreciation increase reflects the growing asset base as a result of continued investment in railway infrastructure.

Profit
Total profit from operations for the year was £2,214m (2012: £2,366m), due to the factors outlined above.

The impact of the valuation of financial instruments was a charge of £43m (2012: £567m). The reduced charge saw profit before tax for the year increase from £475m to £775m.

Financial framework

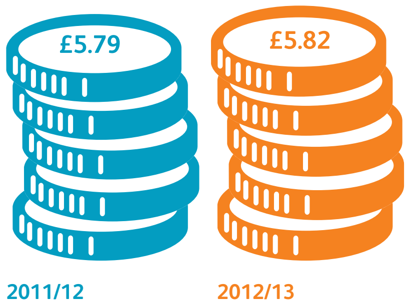
Financing activities

Network Rail Limited is a company limited by guarantee and is the ultimate parent company of Network Rail Infrastructure Limited. There are no external shareholders and all investment is funded through the raising of debt or from operating cash flow. Debt is raised by issuing bonds through the financing vehicle Network Rail Infrastructure Finance plc.

The cost of servicing this debt is addressed as part of the regulatory settlement, whereby income for a control period is set at a level that provides a return on the regulatory asset base. Provided we meet or exceed our financial targets during a control period, we will generate enough funds from our operations to cover the interest expense.

Ultimately, the group benefits from a financial indemnity mechanism provided by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations unconditionally. The chance of that indemnity being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates.

Operating and maintenance costs per train mile in real terms



£2,570m

Operating costs, excluding depreciation – 2011/12: £2,347m

In view of the indemnity, the credit rating given to Network Rail's debt is based on that of the United Kingdom Government. As at 5 June 2013, the ratings from the three principal rating agencies are AA+ Stable (Fitch), Aa1 Stable (Moody's) and AAA (Standard and Poor's).

Borrowing
The group borrowed principally to fund part of its £5,050m investment programme in the year and debt repayments of £1,204m were also made in the year

For the year ended 31 March	2013 £m	2012 £m
Cash generated from operations	**2,703**	2,692
Capital grants	**137**	400
Borrowing to fund investment	**3,547**	2,943
Total investment	**6,387**	6,035

During the year ended 31 March 2013 Network Rail raised £4,751m through the issue of debt. Our success in raising debt in difficult market conditions is a reflection of confidence in the ability of Network Rail to service its debt and of the existence of the financial indemnity from the UK Government.

For the year ended 31 March	2013 £m	2012 £m
Borrowing to fund investment	**3,547**	2,943
Borrowing to refinance	**1,204**	2,546
Bonds issued in the year	**4,751**	5,489

Net debt increased in the year from £27,282m to £30,358m as a result of the investment in the network. The requirement to invest in increasing the capacity and capability of the network generates a financing need. As this creates a long-term source of income and economic benefit, debt finance is considered an appropriate source of funding under the current regulatory regime.

At the end of the year, the key ratio of debt compared to the Regulatory Asset Base was 65 per cent (2012: 63 per cent) and well below the ceiling of 75 per cent set in the Network Licence.

During the year Network Rail raised an equivalent of £1,737m (US$2,750m) in the US bond markets. All proceeds of US dollar denominated issuance were swapped into pounds sterling through the execution of Cross Currency Basis Swaps at the time of execution. The group raised £1,381m in the year through long dated RPI linked issuance, against which RPI linked derivatives were utilised. RPI linked financial derivatives were executed in advance of the current control period in order to fix the real interest rate of future RPI linked issuance. In addition, £1,500m of Interest Rate Swaps were utilised during the year to 31 March 2013. Interest Rate Swaps were executed in advance of the current control period in order to fix the nominal interest rate for future nominal bond issuance.

At 31 March 2013 all RPI linked financial derivatives had been utilised and £1,100m of Interest Rate Swaps, executed prior to CP4, remained for utilisation against nominal bond issuance in the financial year to 31 March 2014.

"The final year of the control period will see continued focus on improving train performance and delivering the capital work we said we would."

The railway network

The railway network that Network Rail owns and has a licence to operate is included in the accounts at a value that represents what a third-party purchaser would pay for it. The basis of this valuation is an assessment of the cash flows that are forecast to arise from the asset. The starting point for this valuation is the Regulatory Asset Base (RAB), on which a return is calculated for setting Network Rail's income for each control period.

Subject to criteria established by the ORR, each year capital expenditure is added to the RAB and amortisation is deducted. The ORR can make deductions from the RAB in the event that Network Rail does not achieve its outputs, for example not meeting required train performance or breaching a licence condition. The valuation of the railway network includes a reduction of £436m (2012: £nil) in respect of missed train performance using a calculation that makes no allowance for the impact of extreme weather or other external factors. We continue to have discussions with the ORR about this adjustment.

We have also been advised by the ORR of prospective adjustments in relation to deemed under performance in asset management, specifically on our civils assets (including bridges and earthworks), fencing and drainage. Network Rail does not agree with the principle or the basis of assessment and discussions are at an early stage.

The ORR has informed us that they will assess and conclude on the quantum of the adjustments in their annual efficiency and finance assessment later this year.

While the adjustments could have an impact of up to £1bn, the outcome of discussions with the ORR is so uncertain that we have not reflected any reduction in the accounts.

Summary

In a number of areas this has been a difficult year but with several positive and promising aspects. Overall train performance remains at a historically high level but not meeting regulatory targets; customer and passenger satisfaction is higher than ever; the organisation has been through significant change but is now better placed for the future. At the same time, overall financial performance remains positive and we are on track to deliver £1.2bn of savings over and above the £4.1bn stretch target we faced at the beginning of the control period.

The final year of the control period will see continued focus on improving train performance and delivering the capital work we said we would. We are also setting out to reach an acceptable financial settlement for the next control period that allows for continued investment in the railway, appropriate levels of maintenance and achievable levels of train performance.

Patrick Butcher
Group finance director
5 June 2013

Our approach to risk management

As with any business, we face a number of risks and uncertainties in the course of our day-to-day operations. It is only by effectively identifying and managing these risks that we will be able to deliver on our strategic priorities of safety, reliability, capacity and value for customers and taxpayers.

The board's responsibilities for risk management

The successful management of risks is essential to deliver our strategic objectives. We have an established governance structure which supports the early identification and mitigation of key business risks.

While the ultimate responsibility for risk management rests with the board, it delegates the more detailed oversight of risk management and internal control principally to the audit and risk committee which reports the findings of its reviews to the board. More detailed oversight of safety related risks is delegated to the safety, health and environment committee. The audit and risk committee receives regular reports from the internal and external auditors and reviews progress against agreed action plans to manage identified risks.

We are managing risks based on our strategic themes

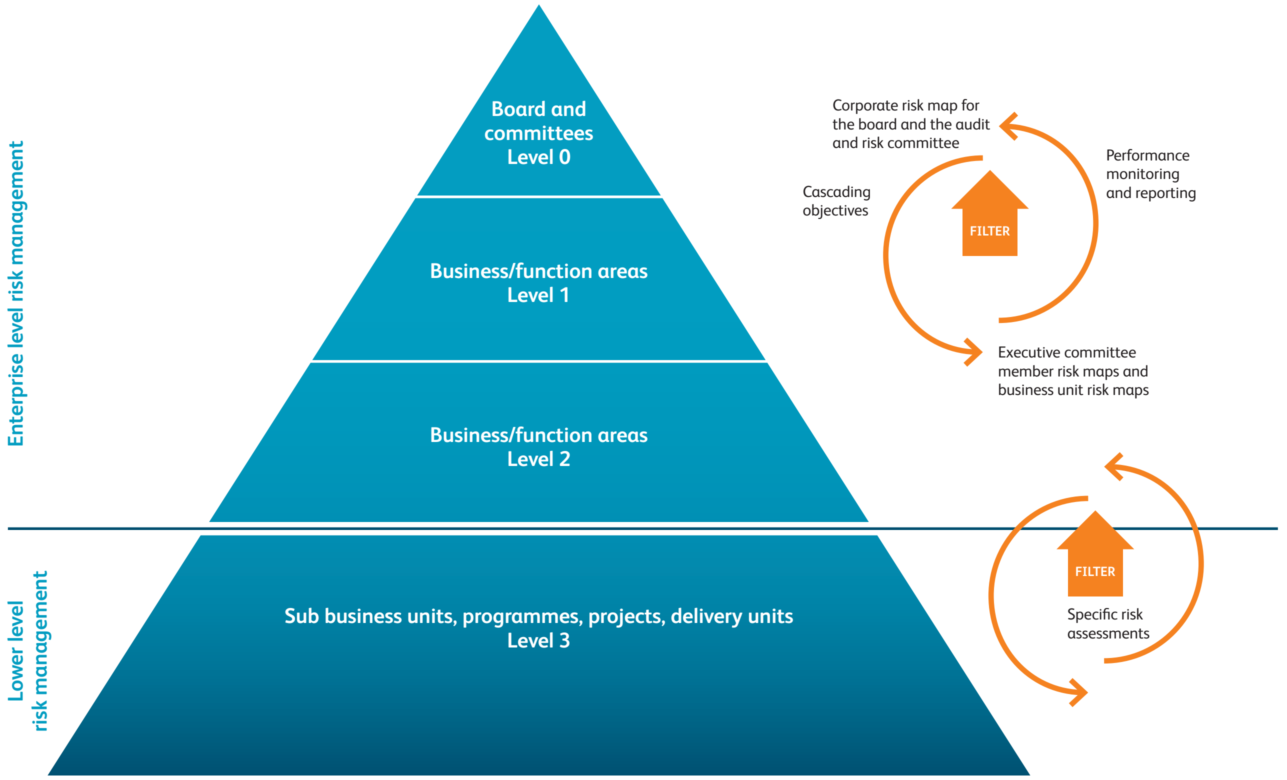
The risk management process forms an integral part of our planning and review activity. Setting top down objectives across the company provides a clear line of sight throughout the business to our strategic themes, outcomes and vision. In order to secure delivery of our outcomes we need a robust assessment of the risks to achieve underpinning objectives. The ongoing management of risk linked to objectives is undertaken by the board and its committees and the business and functional areas using the Enterprise Risk Management (ERM) framework.

ERM is a comprehensive and integrated approach to managing risks at all levels of the business that have the potential to significantly impact the achievement of our key objectives.

Key steps taken to implement ERM across our business include:

- The development in the year of a corporate risk map at level 0 with input from all our executive directors based on risks to 2019 outcomes and strategic themes
- The production of individual risk maps at levels 1 and 2 within key business units linked to 2019 outcomes and strategic themes
- The introduction of a risk escalation process to identify and elevate risks from programmes and delivery units at level 3 to the appropriate level
- The establishment of a senior cross-functional risk review group to challenge, inform and continuously improve the risk management process
- Improved, regular risk reporting to the board, the audit and risk committee as well as the safety, health and environment committee
- The commissioning of an in-depth review of governance, risk and assurance which will strengthen the risk management framework
- Process improvements introduced whereby risk management is being informed by the results of internal audit reports and other internal and external assurance information.

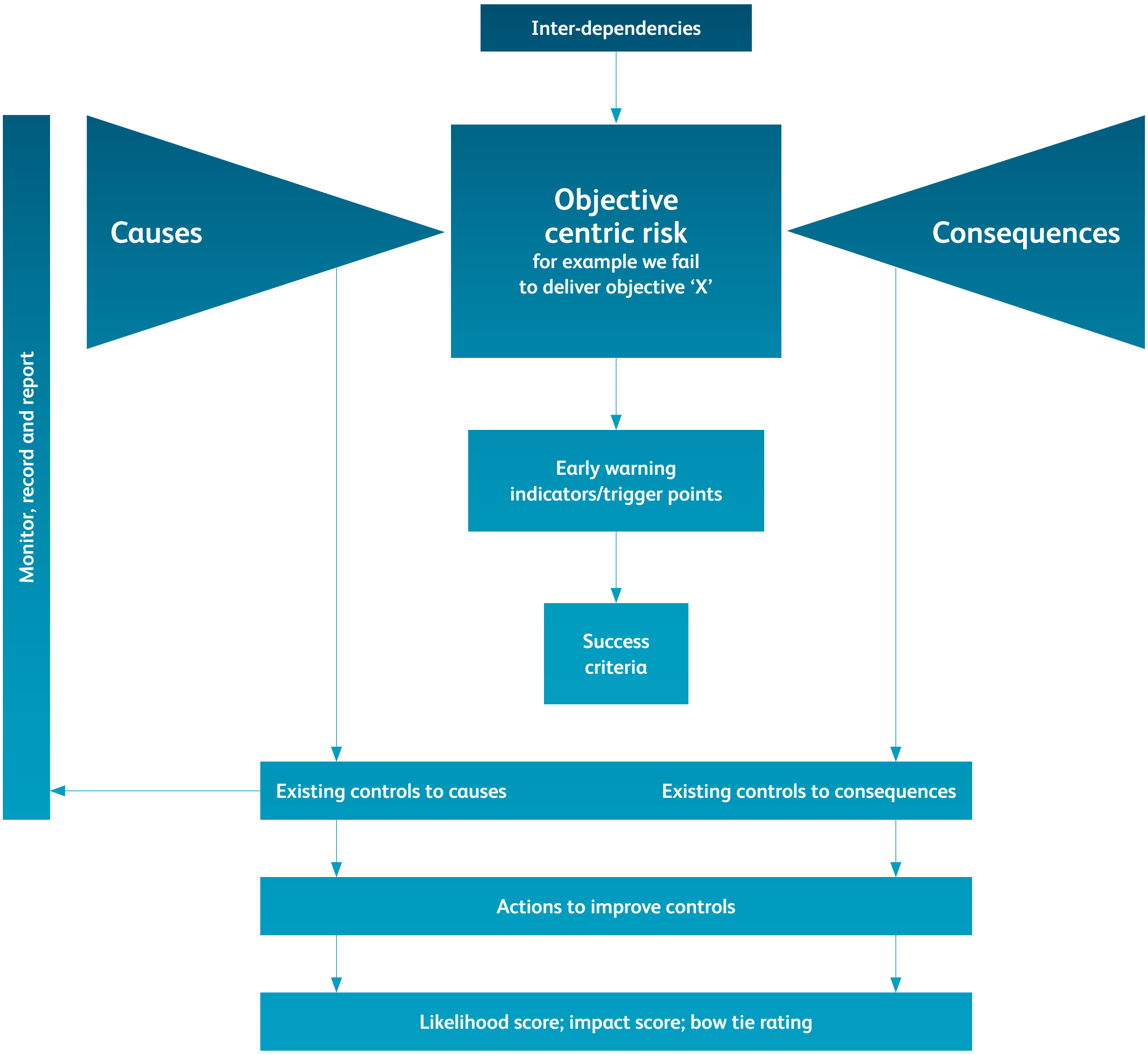
Enterprise risk management framework



"The board has delegated authority to the audit and risk committee to regularly monitor internal controls and conduct the annual review."

Our approach to risk management

Bow tie approach



We are improving our risk management process through the objective centred ‘bow tie’ approach. This methodology identifies the direct relationship between objectives, outcomes, causes and consequences. Controls are used to display what measures we have in place to prevent the causes and mitigate the consequences. The bow tie method requires us to specify the success criteria and outcomes we are aiming for as well as identifying trigger points for events that we are trying to avoid.

The board’s responsibilities for the internal control system

The board is responsible for our internal control systems 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 (rather than absolute) assurance against material misstatement or loss.

The audit and risk committee, on behalf of the board, keeps the effectiveness of the system of internal control under review and has done so throughout the year.

Monitoring and reviewing internal controls

Our internal audit function provides independent assurance on the adequacy and effectiveness of the system of internal control.

Following each internal audit, a report is produced showing the findings which are reported to senior management and any corrective action is agreed. Summaries of these reports and details of progress against action plans are presented to the audit and risk committee at each meeting for discussion and review.

In accordance with the Turnbull Guidance, an annual review of internal controls is conducted. The board has delegated authority to the audit and risk committee to monitor regularly internal controls and conduct the annual review. This review covers all material controls such as financial, operational and compliance, and also risk management systems in place throughout the year under review. No significant failings or weaknesses were identified from this review.

During the course of its review of the system of internal control, the audit and risk committee has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Nevertheless, the board recognises that there is still an ongoing need to build on its internal control framework and uses the opportunity to review internal control processes against incidents when they arise in order to promote continual improvement of our internal control system.

“The board reviews internal control processes against incidents to promote continual improvement.”

Our principal risks and uncertainties

The table below summarises our principal risks and uncertainties.

Description	Impact	Management actions to mitigate
Safety Safety is at the core of everything we do. The risk of death or injury from accidents on the railway for our passengers, workforce and members of the public remains our number one concern.	There is a risk that incidents involving passengers, the public and our workforce continue to happen. If deemed to be within our control, civil or criminal liabilities resulting in significant costs, including fines and penalties, and loss of licence or regulatory enforcement action could arise, together with significant damage to our reputation.	Work has continued during the year to identify opportunities to improve safety performance with several initiatives underway including the development of the transforming safety and well-being strategy, safety leadership and culture programme, level crossing improvement plan, suicide prevention programme and a ten point plan for workforce safety. More information on these initiatives is available on pages 34 and 35.
Operating the railway Our ability to deliver the timetable can be affected by many factors, both within and outside of our control. For example: adverse weather conditions, loss of business critical resources and acts of external parties all have the potential to cause severe business interruption.	There is a risk that we do not deliver passenger, freight and stakeholder performance expectations. This could lead to an inability to service the requirements of our customers, with the potential for loss of our licence or regulatory enforcement action, together with significant damage to our reputation.	We are accountable for managing the industry's train performance improvement plans. Under the auspices of the National Task Force we work closely with the train operators via the Joint Performance Improvement Plan process to identify and mitigate risks to operational delivery. We also manage the industry's response to extreme weather and major external incidents. More information on some of the initiatives that are under way is available on pages 36 and 37.
Maintaining the railway We need to continually develop and demonstrate our asset management capability in order to be considered as a benchmark for excellence in asset management.	There is a risk that we do not develop and implement new ways of working that facilitate rail system optimisation. This could lead to the failure and/or uncontrolled degradation of network assets.	Work has continued during the year to identify opportunities to improve performance with several initiatives under way including the asset management improvement programme, offering rail better information services (ORBIS), intelligent infrastructure and maintenance delivery. More information on these initiatives is shown on pages 38 and 39.

Description	Impact	Management actions to mitigate
Improving the railway We are committed to delivering a number of complex, high value infrastructure enhancement projects which we must do safely, to specification, on time and within budget.	There is a risk that we do not deliver the enhancement schemes in accordance with the High Level Output Specification, to specification, on time and on budget. The consequences would be damage to our reputation, failure to deliver Control Period 4 outputs and an inability to service customer requirements.	All projects are managed using a lifecycle management process known as Governance for Railway Investment Projects (GRIP) which controls the progress of a project through detailed stage gates. A comprehensive approach to programme and risk management is deployed on all major projects which includes comprehensive programme controls using latest Oracle business systems measuring cost and schedule performance. Project risk management is deployed as part of this process and tracked each period using active risk manager.
Finance We have agreed a financial settlement for the current control period which we must use to deliver the regulatory outputs. To do this, we must identify and realise significant levels of cost efficiencies across the company.	There is a risk that we do not deliver the investment, asset management and operational activity required to meet our regulatory outputs. This could lead to regulatory enforcement and damage to our reputation.	A robust business planning process that identifies the actions required to deliver the required efficiencies, together with a series of monthly management reviews that monitors progress and identifies corrective action where necessary.
People We are committed to delivering sustained investment in our people. We must appoint the right people into key leadership and specialist roles at the right time for them and the company.	There is a risk that we do not build rigorous succession pipelines and have robust development plans for all our people supported by visible career paths. This could lead to a failure to deliver our plans and damage to our reputation.	A review of policies and processes to enable greater career mobility (for example succession, promotion, secondment, assignment, interim development) while ensuring transparency and consistency with our aspiration to become an inclusive and diverse culture. Developing our strategy and approach to workforce planning to deliver capability requirements for Control Period 5 and beyond. Defining and embedding future-proofed success profiles and career development options (leadership, people manager and specialist) with associated processes and products delivered via our talent, recruitment and development approaches.

Our score card

We are working with our partners to deliver our strategic priorities of safety, reliability, capacity and value for customers and taxpayers. Like any business, we have our key performance indicators (KPIs) which we use to monitor how we perform. Our financial KPIs can be found in the group finance director's review.

Safety	2012/13 Actual	2012/13 Target	Compared to 2011/12
Passenger safety indicator The passenger safety indicator is measured as passenger fatalities and weighted injuries normalised per million passenger kilometres. The lower the measure the better.	0.243	0.242	Better
Workforce fatalities and weighted injuries The workforce safety indicator is measured as workforce fatalities and weighted injuries normalised per million employee hours. The lower the measure the better.	0.149	0.092	Worse
Operating the railway			
Public performance measure (PPM) Percentage of franchised operator trains that arrive 'on time' at their destination (10 minutes for long distance, five minutes for regional, London & South East and Scotland).	90.9 %	92.2 %	Worse
Freight performance measure Percentage of freight operator trains that arrive 'on time' at their destination (10 minutes for all operators).	74.1 %	76.4 %	Worse
Delay minutes (k YTD) Sum of minutes lost by revenue earning trains at or between monitoring points, which have been attributed to unplanned incidents that are our responsibility.	8,818	7,856	Worse

Maintaining the railway

	2012/13		
	Actual	Target	Compared to 2011/12
Asset stewardship indicator Indicator of the quality of our asset stewardship, based on asset condition, reliability and performance across our key assets. The higher the number the better.	0.093	0.063	Same

Improving the railway

	Achieved	Achieved on time	Compared to 2011/12
Enhancement milestones completed Progress against the milestones contained within the CP4 Delivery Plan.	429	352	Better

Stakeholder satisfaction

	Actual	Target	Compared to 2011/12
Passenger satisfaction The National Passenger Survey (NPS) commissioned by Passenger Focus, provides a network-wide picture of customers' satisfaction with rail travel. This represents passengers' overall satisfaction with their journey in Autumn 2012.	85 %	84 %	Better
Customer satisfaction Customer satisfaction is established through a survey of the top managers from the train and freight operators in the UK. The survey is carried out by a third party company, GfK. This represents their overall satisfaction with the company in Autumn 2012.	66 %	N/A	Better

Key

Colours for actual against target

Better Worse

The results indicate our performance for the year.

Safety

By putting safety at the heart of how we design, manage and maintain our railway we will reduce safety risks for passengers, the public and our workforce.

What are our key outcomes?

Key 2019 outcomes

- Eliminate all fatalities and major injuries
- 50 per cent reduction in train accident risk
- Eight per cent reduction in risk at level crossings.

Key longer term outcomes

- Everyone home safe every day

Level crossing risk

Our national public safety campaign continues with the theme of distraction headlined by rapper Professor Green encouraging people to remove their headphones at level crossings.

Safety is at the core of everything we do, from our group board to every colleague in every depot, station, signal box and office. Our vision is that everyone returns home safe every day. We do not underestimate the challenge of achieving this in a group which serves members of the public, including those who travel as passengers, with over 34,000 employees working in 10 routes, several businesses and a rail projects delivery business with a contractor workforce of up to 100,000.

We aim to be a trusted leader in the railway industry, working with our partners and using our full potential to improve safety to safeguard passengers and the general public, our people and contractors.

Over the year we developed our 'transforming safety and well-being' strategy that will underpin the delivery of our vision. The strategy will enable us to significantly improve our safety performance and to more clearly lead safety management in our business and with industry partners. It demonstrates our ambition to radically change our safety performance, recognising that this cannot all happen within the short horizon of one control period.

How have we performed during the year?

Workforce safety

Workforce safety is primarily measured by the workforce safety (fatalities and weighted injuries) measure which compares the weighted number of personal injuries to our staff and contractors working on the rail infrastructure. The fatalities and weighted injuries rate was 0.149 compared with 0.136 in 2012. (the lower the number the better).

This is an area which has received increased focus from our executive team during the year and the key initiatives under way to improve our performance on workforce safety can be found on page 35.

Passenger safety

The passenger safety indicator combines train accident risk information with weighted fatality and injury data. The passenger safety indicator at the end of the year was 0.243 against a year-end target of 0.242 (the lower the number the better) – however 2.02 per cent better than the same time last year. There was a passenger fatality at Network Rail managed train stations this year (one of the passengers sadly died of a heart attack) and there were three major passenger injuries at Network Rail managed stations – all were slip/trip/fall accidents. We are focusing on activities at our managed stations to manage crowd flows and influence behaviour so that passenger injuries on our stations are reduced.

Public safety

During the year there were 49 adult accidental fatalities and 240 suicides. We continue to work closely with Samaritans to understand what more can be done to reduce suicide risk on the railway.

Our lifesaving rules

We have agreed these 11 lifesaving rules. They're here to protect all of us.
If you're ever asked to break or ignore any of these rules, you have the right to say no.

For more information, please speak to your line manager.

Contact with trains

- Always have a valid safe system of work in place before going on or near the line.

Working with electricity

- Always have a valid permit to work where required.
- Always test before applying earths.
- Never assume equipment is isolated – always test before touch.

Working at height

- Unless it is clear other protection is in place, never work at height without a safety harness.
- Always use equipment for working at heights that is fit for purpose.

Working with moving equipment

- Never enter the agreed exclusion zone, unless directed to by the person in charge.

Driving

- Always wear a seat belt while in a moving vehicle and always obey the speed limit.
- Never use a hand-held device or programme any hands-free device while you are driving a road vehicle.

Taking responsibility

- Never undertake an activity unless you have been trained, assessed as competent and have the right equipment.
- Never drive or work while under the influence of drugs or alcohol.

everyone home safe every day

Level crossing risk

During the year, the risks associated with level crossings reduced by 5.5 per cent according to the level crossing risk indicator model. We have therefore achieved a 22.8 per cent risk reduction so far for Control Period 4 and are ahead of schedule to achieve a 25 per cent risk reduction for the entire control period.

We have identified 750 high-risk level crossings which we will close by Spring 2014.

We reached an important milestone in our level crossing closure programme when the 600th level crossing at West Lodge on the London North East route was closed in October 2012.

Our national campaign continues with the theme of distraction, headlined by rapper Professor Green encouraging people to remove their headphones at level crossings.

In Control Period 5 we will continue our programme to reduce risk at level crossings. We will focus our efforts on achieving the most cost-effective risk reduction, closing crossings where possible and ensuring the public understand the risks of unsafe use of crossings.

What key initiatives do we have under way?

Safety culture change

We are working to develop an inclusive and mature safety culture by achieving a change in key behaviours across our organisation. The behaviours demonstrated when such a culture is in place include: providing clear and simple rules while trusting people to use their expertise in a responsible way; being risk-aware: encouraging open discussions about risks; actively identifying and reporting risks in a blame-free environment; aiming to continually improve rather than control. The culture change will be achieved primarily through carefully tailored communications and training for all our staff as well as dedicated intranet groups and live forums. Our first communications campaign launched 11 lifesaving rules which cover the most fundamental safety issues (see above).

Business critical rules programme

Our working regime is being simplified with the introduction of approximately 100 business critical rules which will replace the current 1,650 standards. These rules will be accompanied by concise means of compliance. For any employee, supplier or contractor, the new working regime will clearly specify the expectations that are placed on them. The risk of incidents caused by conflicting information or expectations will be greatly reduced.

10-point plan for workforce safety

The plan provides a number of targeted interventions which will provide a sustainable step-change in the safety of the workforce and contribute towards our target of eliminating all workforce fatalities and major injuries. The components of the plan include: increasing clarity on roles and responsibilities when working trackside; investing in new technology to ensure our people remain safe when working trackside; how we treat people fairly; how we implement learning from incidents; our approach to planning our work; the employment practices of our contractors to ensure that our plan is embedded in all their work practices.

Close call reporting

We have also implemented a new 'close call' reporting system. The reporting system allows the collection of all close call data in one location so we can track industry trends and patterns more efficiently and use this information to prevent accidents.

Operating the railway

We will continue to transform how we timetable and operate the railway, enabling us to deliver a better service for all.

What are our key outcomes?

Key 2019 outcomes

- Operate the railway on a day-to-day basis consistent with our planned outputs
- Short and longer term decision-making processes in place, enabling balanced choices between cost, capacity, performance, availability and other outputs.

Key longer term outcomes

- Performance, capacity, availability and other outputs optimised as part of balanced long-term decision making process taking account of cost, user benefit and wider benefits.

"We have the fastest growing railway in Europe creating one of the busiest mixed traffic railways in the world."

We have a duty to passengers and freight users to get the most out of our infrastructure. To do this we have to balance their requirements for frequency, journey time, speed, stopping patterns and performance with efficient access for both maintenance and renewal, to optimise the economic use of capacity and manage costs.

Against this challenge, we have to operate an increasingly busy network, in real time, responding to incidents to keep trains running to plan. In the last decade Britain has been Europe's fastest growing railway with passenger numbers up by 43 per cent and freight by almost 60 per cent, creating one of the busiest mixed traffic railways in the world.

Delivering the required performance will provide a number of challenges, and at times trade-offs will need to be made, both in planning the timetable and delivering the service. We will develop better measures of capacity to help inform these decisions.

How have we performed during the year?

Performance in the year has again been severely affected by weather (the third year in Control Period 4 (CP4) that this has occurred). This included several days of the worst September storms for many years, with 98mm of rainfall falling in 24 hours on part of the London North West route. These storms caused around a 10 per cent drop in the number of trains being able to arrive on time each day (the daily PPM). Our long distance and regional services were particularly affected as was freight performance generally.

Severe weather has had the biggest impact on the performance of the railway with the impact of external delays (things that we do not have principal control over such as cable theft and suicides) significantly reduced as a result of significant industry focus in this area.

Despite this, there has been a positive demonstration of good performance stewardship in the industry, and engagement with the Office of Rail Regulation (ORR) and progress in creating a refreshed approach to performance planning that is better integrated with other outputs in readiness for CP5.

Freight performance

Delay to freight services caused by Network Rail has improved significantly during the year. The freight performance measure was however 74.1 per cent against a year-end target of 76.4 per cent (the higher the better). We continue to work closely with our freight customers to improve performance.

Delay minutes

The total delay minutes was 8.82 million, 12.2 per cent worse than the target of 7.86 million and 5.1 per cent worse than last year's total of 8.39 million.

Public performance measure

Nationally we achieved 90.9 per cent public performance measure (PPM) (the percentage of trains arriving on time) against our recovery plan target of 92.2 per cent.

Long distance performance

Over the past few years demand for long distance services has continued to grow significantly ahead of initial expectations at the start of CP4. The growing demand has put pressure on train punctuality. The railway is busier than it ever has been and so when incidents happen more trains are delayed.

The ORR has already determined that we should pay a financial penalty of £1.5m for each 0.1 per cent that long distance performance falls short of the

8.82m

Total delay minutes – 12.2 per cent worse than the target of 7.86 million, and 5.1 per cent worse than last year's total of 8.39 million.

43 per cent increase in passengers over the last 10 years

2002/03 2012/13

60 per cent increase in freight over the last 10 years

2002/03 2012/13

end of control period target. We achieved 87.0 per cent PPM against our recovery plan target of 89.7 per cent. We believe we are doing all that is reasonably practicable to deliver on our long distance commitments and are engaged in a continued dialogue with our customers about the delivery of the plan.

London & South East (LSE) performance

We have developed a recovery plan to address the specific performance challenges we face in the LSE and are engaged in a continued dialogue with our customers about the delivery of the plan. We achieved 91.0 per cent PPM against a target of 92.3 per cent.

Performance in Scotland

We achieved 93.0 per cent PPM against a target of 91.5 per cent, significantly better than the target. We and our customer, First ScotRail, have jointly delivered and sustained improvements over the last year.

We have carried out detailed analysis to explain these shortfalls against our CP4 targets focusing in particular on where train performance is affected by changes in journey times; capacity and other outputs; the assumptions which informed our planning for CP4; the impact of adverse weather to inform the recovery plans we put in place last year for the freight, long distance and LSE sectors; our plans for CP5. Each of the following key initiatives will help us to deliver the required performance.

What key initiatives do we have under way?

Traffic management

Implementing a modern traffic management system will reduce our costs while improving performance. It may also enable us to accommodate more trains. This automated technology allows the productivity of staff to be increased and provides an improved capability for managing punctuality and disruptions. It enables enhancements in train regulating decisions and recovery plans as well as in the provision of accurate information to the travelling public during delay. Improving our capability for managing disruptions will allow us to reduce the timetable contingencies or to shorten journey times.

The long-term planning process (LTPP)

We are improving the planning process through for example establishing stronger links to asset management and a greater focus on options which go beyond incremental changes to the existing network. We have begun implementing the LTPP and expect that outputs will be completed in time to inform the planning for CP6.

Operating strategy

We have embarked on a long-term programme which will consolidate signalling from over 800 dispersed locations into 14 modern rail operating centres. This will allow us to reduce our frontline operations workforce from 5,600 to less than 1,500 in the longer term and deliver significant savings in operating costs. The removal of mechanical signalling on many rural routes, together with the new traffic management system, will also lead to increased capacity through 24/7 availability. This will generate new revenue opportunities especially for freight services.

Industry access planning improvement

We are changing the way in which access to the rail network for maintenance and renewals is planned, managed and delivered, reducing costs and enabling improvements in capacity, performance, safety and customer service.

Maintaining the railway

We will go from being world class in taking care of our track to becoming a world leader in the management of all our assets.

What are our key outcomes?

Key 2019 outcomes

- Be a benchmark against which organisations throughout the world assess their own asset management capabilities
- Enhanced asset information: real-time system-wide infrastructure information enabling greater network capacity exploitation and improved traffic management.

Key longer term outcomes

- First rate cross-industry asset management processes
- Modern asset information and other industry systems.

We are one of the largest asset management companies in Europe, with infrastructure comprising around 30,000 bridges, 2,500 stations and 20,000 miles of track. In delivering our vision we will need to possess first rate asset management capability. We intend to be respected world-wide as the pre-eminent source of railway systems innovation and best practice, both within and outside of the rail industry.

How have we performed during the year?

We have seen an improvement in our asset stewardship over the year. The asset stewardship index was 0.093 against a target set at the start of Control Period 4 of 0.063 (the higher the number the better). Severe weather has however impacted on track quality with an increase in faults on rural routes and an increase in broken rails. We continue to focus on our track renewals work as well as improved targeting of maintenance activity.

Another measure of our asset stewardship is the number of incidents and resulting delays caused by asset failures i.e. delays to trains caused by problems with the railway infrastructure. We have seen a reduction in signalling failures and traction power failures that cause significant delays. However there has been an increase in earthworks failures linked to the extreme weather conditions experienced in 2012. We have undertaken risk assessments on earthworks failures arising from severe weather and are working with outside agencies to enhance our capabilities further in this area.

What key initiatives do we have under way?

Asset management improvement programme

Our intention is to attain best practice status against UK equivalents by 2014. We are building on our established strengths in delivering projects and managing the supply chain by embedding whole-life cost principles in our decision making and improving the asset management competency of our staff. Some of our initiatives have longer lead times, for example, overhauling our asset information systems and applying them to improve our risk-based decision making.

Offering rail better information services (ORBIS)

Our ORBIS programme has now reached its one year mark and many of the information foundation projects are well under way. ORBIS makes it easier to capture asset information through the deployment of hand-held devices and advanced train-borne systems, optimises decision-making through provision of integrated information and decision-support tooling, and optimises work management through better exploitation of geospatial information and elimination of paperwork.

ORBIS will give us better information about how our rail network is performing, the condition our rail assets are in and where we need to make future investments.

ORBIS will give us better information about how our rail network is performing, the condition our rail assets are in and where we need to make future investments

01 Remote condition monitoring measures and records the impact of trains on the rails. This allows us to identify defective train wheels and overloaded axles which can then be maintained to reduce track damage.

Intelligent infrastructure

Remote condition monitoring (RCM) technology makes it possible to detect asset degradation and to intervene before individual assets fail. Therefore it enables us to maintain our infrastructure in a more reliable way and at a lower cost. RCM technology can be applied to equipment that is located on fixed infrastructure to monitor the condition of this as well as equipment that is located on rolling stock to measure the condition of fixed infrastructure. We have continued our extensive rollout of this technology and we will expand the use of it in CP5 across the areas of signalling, electrification and plant and telecoms.

Risk-based maintenance will allow us to further refine our maintenance tasks and intervals. This will allow us to apply improved asset knowledge to quantify the most cost-effective levels of reliability and risk, from which we will optimise our maintenance regimes.

Maintenance delivery

To improve the way we work, we have launched a detailed programme to improve the effectiveness of delivering maintenance from our 39 delivery units. This programme will assess the benefits from:

- Doing the right work – we expect a significant dividend from RCM and risk-based maintenance together with changes to standards and policies
- Increased use of technology delivered through programmes including RCM and ORBIS
- Improved access to the track
- Quicker possessions and isolation
- Mechanisation
- Better planning and productivity.

Improving the railway

We will deliver the biggest capacity increase on the railway for 100 years, benefiting people and businesses across Britain.

What are our key outcomes?

Key 2019 outcomes

- We are delivering a step-change in whole life, whole system capability through better project delivery
- We are delivering demonstrated value from working in partnership with both our train operators and our suppliers
- We are competing and winning business.

Key longer term outcomes

- We are a significant partner to HS2
- We are recognised by stakeholders and customers as being the best rail infrastructure project delivery organisation in the UK.

Our ambition is to be the best rail infrastructure project delivery organisation in the UK. We will be a rail infrastructure solution developer, integrator and deliverer while also offering additional support services to our clients such as engineering design and asset protection.

How have we performed during the year?

We have changed the way we work:

- We embarked on an ambitious change programme to create an organisation that can provide an effective and efficient customer focused delivery capability and provide outstanding value
- We revised our capital project organisation by establishing customer-focused internal project delivery business units in the form of regional organisations matched to routes retaining national delivery teams and programmes where there was value in keeping specialist skills and a pan route focus
- We launched a series of pilot project alliances which will help inform and test our revised customer and supply chain engagement approaches, assuring capability improvements
- We created an international consultancy business to enable the sale of consultancy services covering the full range of our capabilities
- We have started the development process of establishing clienting capabilities within the devolved routes. A number of pilot projects have been initiated to test new ways of working and to help build the clienting capability.

We delivered the following key projects during the year:

- The **Edinburgh Waverley station** renewals project achieved substantial completion in December 2012 with the new Market Street entrance and bridge now opened allowing step-free access from the southern side. Remaining work is scheduled for completion in October 2013
- The **Thameslink programme** will allow more trains on the north/south route through central London, one of Europe's busiest stretches of railway. We completed the first stage of works, with the London Overground extension opening during the year. We have started the second stage of works including the major reconstruction of London Bridge station, signalling and track
- The **Bletchley remodelling project,** which replaced life expired 1960s signalling, track, and overhead line equipment, on this key section of the West Coast Main Line, with new more reliable equipment delivering a layout more suited to current and future requirements
- The modernisation of **King's Cross station** with a significant increase in passenger handling capacity by creating a new concourse three times the size of the old one, and restoring the original Grade I listed building was successfully completed during the year, and the new 7,000 square metre King's Cross Square is on programme for completion in Autumn 2013.

- Western concourse programme at **Birmingham New Street station** completed on programme
- The **Reading station area redevelopment** is ahead of schedule with significant track and signalling upgrades during Easter 2013 and the opening of the new transfer bridge and platforms marking the first phase in unblocking Reading's bottleneck.

What key initiatives do we have under way?

- Track delivery efficiency programme
- Introduction of a new quality management framework
- Simplification of systems and processes
- A comprehensive programme of supplier engagement events
- 10-point people capability work stream.

01 Birmingham New Street station concourse

02 Reading station

03 Artist's impression of King's Cross Square

The way we work

Sustainable development is at the heart of everything we do.

Sustainability

We remain committed to sustainable development, with the aim of driving efficiency, building trust and creating long-term value for stakeholders through responsible business practices.

Managing sustainable development

During the year, we developed a group-wide vision and strategy for sustainable development. We consulted with our internal and external partners on our new approach.

Key aspects of our strategy include identifying ways of adapting our infrastructure so that it is more resilient to the predicted effects of climate change, reducing the carbon footprint of the energy we procure, and improving diversity and inclusion in our workforce. Work is ongoing to put in place plans to implement key aspects of our strategy and support our business units in integrating sustainable development into our everyday operations.

Find out more about how we manage sustainable development at **networkrail.co.uk/sustainability**

Environmental stewardship

Energy and climate change

Our aim is to improve standards of energy efficiency and reduce our carbon footprint. We have a target to reduce energy-related carbon emissions from our offices, maintenance depots and managed stations by 20 per cent by 31 March 2014 based on 2006/07 consumption figures.

Preliminary data shows that we achieved a 14 per cent reduction in carbon emissions from these buildings in 2012/13, however there is a significant amount of estimation in the energy consumption figures that have been used in this calculation. This will be replaced with actual data further into the 2013/14 year.

Managing waste

We handle large volumes of waste across our business including everything from general litter to construction waste. We have set ourselves a target of diverting 60 per cent of waste sent to landfill generated at our offices, maintenance depots and managed stations by 31 March 2014.

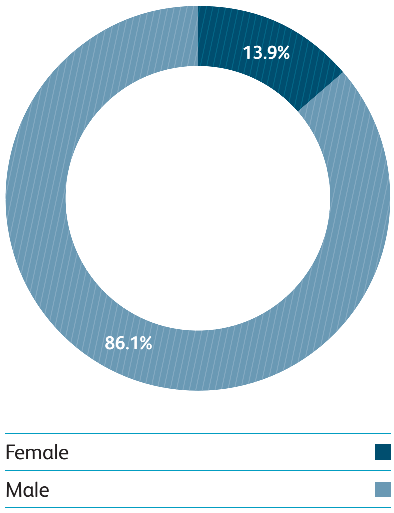
Initial data for 2012/13 indicates diversion rate of 56.6 per cent although some figures for the final period of the year have been estimated due to reporting deadlines. In particular the opening of our new national centre in Milton Keynes has led to an increase in the amount of waste arising from our offices diverted from landfill.

Research and development

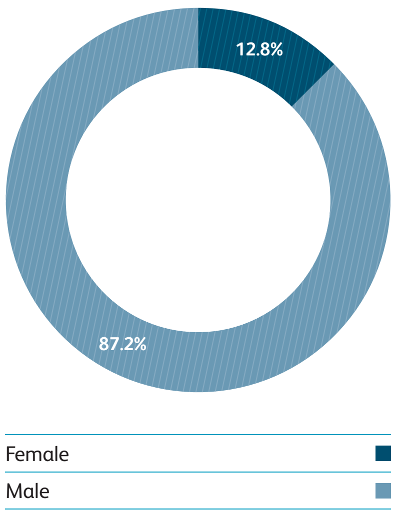
We have recognised we have underinvested in research and development in the past but we have made a commitment in the strategic business plan to invest in technology during Control Period 5 and by 2019 to invest more per year than comparable British companies. Our focus is on autonomous systems, new energy storage and harvesting technologies, and the use of modern materials to lower carbon emissions and reduce the cost of maintaining the railway.

Diversity across the group

Female workforce as at 31 March 2013 %



Female executive leaders* as at 31 March 2013 %



* Executive leaders are the most senior managers within the group.

During the year the company charged £1m to the income statement (2011/12: £2m) on research and development. Other costs relating to significant development work have been capitalised in property, plant and equipment.

Our people

People profile

We are one of the largest employers in the country, with over 34,000 employees, many of whom have spent their entire careers at Network Rail. We recognised that to fulfil our ambitions to be a trusted industry leader and to attract the best talent it is necessary to improve our approach to diversity and inclusion.

Following the review of diversity and inclusion in recruitment and promotion in 2011, we have undertaken a number of activities this year including updating our equality, diversity and inclusion policy in collaboration with the trade unions. We delivered a quick-wins plan and a medium-term plan, which responded to all of the recommendations in the review, for example through ensuring more consistent advertising of vacancies, building greater awareness of disability, introducing an inclusive leadership programme and developing more robust diversity monitoring data.

Our monitoring data allows us to both understand the composition of our workforce much better and just as importantly, appreciate whether or not there are any trends in our recruitment, development or the way we manage people that create barriers to our staff achieving their full potential.

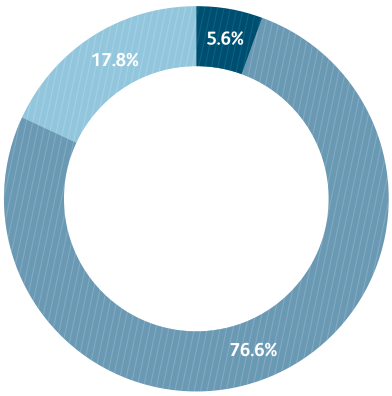
This year we asked everyone in the business to update their diversity monitoring data, and this shows us that 13.9 per cent of our employees are women; 5.6 per cent of our employees are from a black, Asian or minority ethnic background; 0.3 per cent of our staff are disabled. Over a fifth of our employees have been with the group for 20 years and the average age is 43.

By using this information intelligently, we are now much better placed to focus on interventions that will, for example help to increase the reporting of disability, or the percentage of women who work here.

We know that changes in the composition of our workforce will take time so our objective to 'create a more open, inclusive and diverse organisation' is also about the culture of our business. The establishment of our own centre of expertise and the introduction of inclusive leadership skills and behaviours chimes well with our drive to be customer-driven, collaborative, accountable and challenging. Similarly, we will be working with our industry partners to share best practice and encourage talented people from more diverse backgrounds to consider the railway as a great career choice.

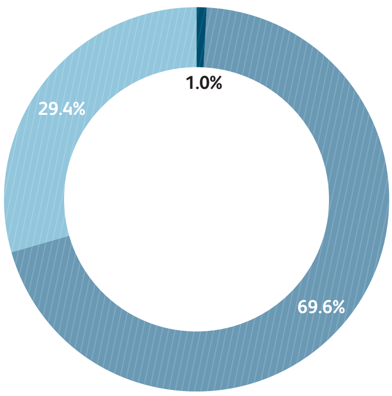
Diversity across the group

Black and minority ethnic* workforce as at 31 March 2013 %



BME	
Non-BME	
Unclassified	

Black and minority ethnic* executive leaders† as at 31 March 2013 %



BME	
Non-BME	
Unclassified	

* BME consists of employees that do not begin with white in their origin, Non-BME consists of all employees that begin with white in their origin. Approximately 18 per cent of employees have not declared, or specified their origin.

† Executive leaders are the most senior managers within the group.

> *"We are committed to providing training and development initiatives to deliver exellence in all we do."*

Health and well-being

We are committed to the good health and well-being of all of our people and recognise that supporting better health and well-being is a key driver for our strategic aims of improved safety, sustainability and engagement. We also recognise that there are additional benefits to our people, their families and our organisation by broadening our health and well-being approach to take into account three key areas: physical well-being, mental well-being and social well-being.

We are currently developing a broad and ambitious strategy to achieve our long-term aims for a healthier organisation. In 2012/13, we conducted several detailed reviews relating to employee health and well-being including a detailed review of absence, an employee well-being survey (utilising the Health and Safety Executive's Management Standards for workplace stress) and a deep-dive review of our occupational health risks.

We established an employee health and well-being working group with representation from all areas of the business, including trade unions, human resources, rewards and benefits, safety, internal communications and employee relations, so that our strategy and approach is collaborative and takes into account the wide ranging views that can be expected with such an important area.

Communication

We recognise the value of good communication in engaging our employees in order to achieve common goals and we have a number of established employee communication mechanisms in place to achieve this goal, including the group's intranet site, management information cascades and briefings, films, internal magazines, email news bulletins and business briefings. Business briefings are held annually, across the country, in April at which employees are able to attend and question the directors on any aspect of the business that they choose.

Recruitment and training

We are committed to providing high-quality training and development initiatives to ensure we are equipped to deliver excellence in all we do. Substantial investment is dedicated by the company to deliver high-quality, accredited training and development programmes as a primary means of stimulating cultural change and management competence. We continue to invest heavily in our outstanding frontline training facilities across the country. We support a number of early career entry programmes to refresh our talent pipeline – large apprenticeships and graduate recruitment programmes and sponsored MSc and HND courses.

Career progression

We actively encourage development from within. Our talent identification and succession planning processes are now being embedded across the business and our intention is to ensure we develop our internal pool of talent so we can resource roles internally wherever possible. To support this we offer a suite of specific programmes to develop key individuals.

Engaging with our partners

Creating alliances with our customers

We are building strong partnerships with our customers – the train and freight operating companies. We are working closely with our customers both directly and through organisations such as the Rail Delivery Group.

We are making progress with our plan to form alliances with our customers to enable faster decisions, and have more focus on passengers, as well as lowering costs. For example, in Scotland detailed proposals for a deep alliance are being developed.

Customer satisfaction

We carried out our annual survey of our customers – the passenger and freight train operators – in late 2012. The survey, carried out anonymously by an independent agency, provides us with information on how well our customers believe we are managing our relationships with them. The overall response rate was up nine per cent to 78 per cent and the overall level of customer satisfaction increased markedly from 43 per cent to 66 per cent. The overall level of customer satisfaction at route level is shown on pages 2 and 3.

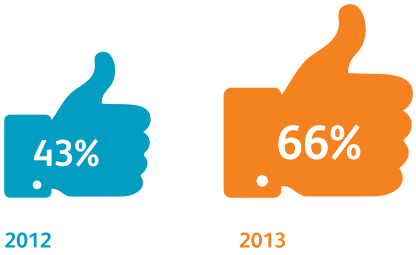
In order to drive step-change improvements in customer service in the coming years, we are also developing a customer service maturity measure. This measure will add depth to the information which the existing survey already offers, by providing an enhanced understanding of customer service quality within specific activities.

Passenger satisfaction and performance

For our business to be successful, the service we provide must meet the demands of rail passengers and deliver outstanding levels of satisfaction.

Nationally, the percentage of passengers satisfied with their journey overall has remained at a record high of 85 per cent.

Overall customer satisfaction



"We are building strong partnerships with the train and freight operating companies."

£1,739,621

raised through gifts in kind, employee fundraising and other initiatives.

"Up to 20 million people live or work within 500m of the railway; we investigate all lineside issues from graffiti to fly-tipping."

Sustainable procurement

We spend around £4.5bn every year on goods and services – sustainable procurement can unlock big cost saving opportunities.

We have trained a cross-section of our procurement people on sustainable procurement practices, and now evaluate suppliers' approach to sustainability as part of most of our contract award decisions.

We are committed to paying our suppliers on time. Our policy is to settle the terms of payment when agreeing the terms of each transaction where standard terms are not used, to make suppliers aware of the terms of payment and to abide by the terms of payment. As part of our commitment, we have signed up to the Prompt Payment Code and The Procurement Pledge which articulate the values and behaviours we want to embody. For construction contracts in our infrastructure projects business, we have rolled out the Fair Payments Charter, recognising the market conditions in the construction industry.

As at 31 March 2013 the company's creditor days compared with the value of suppliers' invoices received in the year was 28 days (2011/12: 41 days).

Respecting our communities

Respecting our neighbours

The way we manage enquiries from the community is important to our business and operations. A positive relationship with our lineside neighbours is important when we're improving the railway infrastructure in their local area.

Up to 20 million people live or work within 500 metres of the railway boundary and on average a third of them each year will be impacted in some way by work carried out. We aim to notify local people of works and engage with communities where larger scale projects are being delivered. In addition, we will investigate all lineside issues from graffiti through to litter and fly-tipping.

We offer a range of ways to contact us. Our 24/7 national helpline provides immediate front line support and we also offer contact via email, letter and social media.

Charitable donations

We support large and small charities across Britain – especially those connected to what we do – where our money and practical support can benefit communities.

During the year we donated £490,000 to charity (2011/12: £589,240) and leveraged a further £1,739,621 (2011/12: £1,805,638) through gifts in kind, employee fundraising and other initiatives, totalling £2,229,621 (2011/12: £2,394,878).

In February 2012, our employees voted Action for Children as our charity of choice for 2012 to 2014. This year, we have donated £767,139 to Action for Children through employee fundraising, payroll giving, gifts in kind, volunteering time and corporate donations.

Further details of our charitable giving and involvement can be found in our Sustainability Update which will be published later in the year at networkrail.co.uk/sustainability

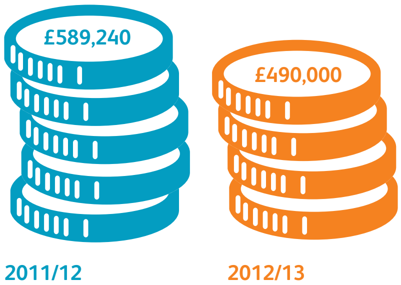
Political donations

In line with our policy, no donations to political parties were made during the year (2011/12: £nil).

We need to work closely with all types of community representatives and have a significant amount of contact with a wide range of elected representatives (including members of Parliament, Scottish Parliament, London Assembly and Welsh Assembly) as well as with non-governmental organisations, pressure groups and campaigning organisations. Meetings are held to discuss both our issues and the issues of both passengers and freight users on a national and regional scale.

Opportunity is also taken each year to explain to elected representatives our business plans, performance and significant developments within the business. This is sometimes best achieved by organising briefings and similar functions.

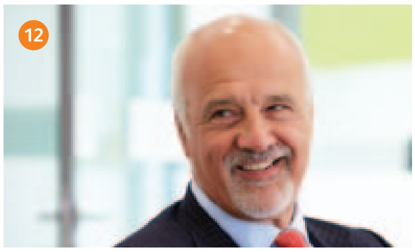
During the year we donated



£767,139

donated to Action for Children

Board of directors



01 Richard Parry-Jones
Chairman (61)
Appointed to the board: 2012

Skills and experience
Richard has extensive experience of the automobile and engineering industry having joined Ford Motor Company as an apprentice before working in multiple disciplines around the world, eventually becoming group vice president of Global Product Development and chief technical officer. He has been recognised for his leadership of the development and introduction of breakthrough technologies in vehicle safety and sustainability. He is a fellow of the Royal Academy of Engineering, the Institution of Mechanical Engineers and the Royal Society of Statistical Science. Richard has been awarded a CBE for his services to the automobile industry.

Current external appointments
Senior independent director of GKN plc; non-executive director of Cosworth Group Holdings Ltd; honorary president of the High Speed Sustainable Manufacturing Institute; visiting professor of the faculty of Engineering at Loughborough University; co-chair of the UK Automotive Council; council member of the Royal Academy of Engineering and of Bangor University

Committee membership
Remuneration committee

02 David Higgins
Chief executive (58)
Appointed to the board: 2010

Skills and experience
David joined the board in April 2010 as non-executive director before taking up the role of chief executive in February 2011. He has held a number of executive directorships including most recently being chief executive of the Olympic Delivery Authority. He has also been chief executive of English Partnerships and group chief executive of Lend Lease. He is an engineer by background and holds a degree in civil engineering from the University of Sydney. He also holds a diploma from the Securities Institute of Australia.

Current external appointments
Non-executive director Sirius Minerals Plc and Rail Safety and Standards Board

03 Patrick Butcher
Group finance director (45)
Appointed to the board: 2009

Skills and experience
Patrick is responsible for finance, property, procurement, information management, legal services and human resources. Former finance director positions include English Welsh and Scottish Railway (now DB Schenker), Mapeley, London Underground and King's College Hospital. His early career was at Deloitte & Touche as a management consultant and auditor. He is a member of the Institute of Chartered Accountants (South Africa).

Current external appointments
Member of British Transport Police Authority

04 Robin Gisby
Managing director Network Operations (56)
Appointed to the board: 2008

Skills and experience
Robin currently leads the day-to-day operation and maintenance of the national rail network, including local asset management. He has been employed by the company and its predecessor since 1997 and has held a number of senior executive positions, including two regional director positions. He was a member of the Olympic and Paralympic Transport Board and has been a member of the British Transport Police Authority. He has a first degree in Engineering Science and an MBA. He is a chartered engineer and a fellow of the Chartered Institute of Transport.

05 Simon Kirby
Managing director, Infrastructure Projects (47)
Appointed to the board: 2008

Skills and experience
Simon joined the company in 2003 and is currently responsible for delivery of large enhancement and renewal infrastructure projects and for leading the Infrastructure Projects business within Network Rail. Previously, he was involved in land and naval weapons system projects including the Trident Nuclear Submarine Programme. He was managing director of BAE Systems shipbuilding business before becoming managing director of the BAE Systems Type 45 Prime Contract Organisation. He holds an MSc in Engineering Business Management and is a fellow at both the Institute of Civil Engineers and the Association of Project Management.

Current external appointments
Board member of Major Projects Association; chairman of IUK Client Group; member of the Government Construction Industry Strategic Advisory Council.

06 Paul Plummer
Group strategy director (47)
Appointed to the board: 2008

Skills and experience
Paul joined the company in 2002 and is currently responsible for the development of corporate strategy, network strategy and planning, the development of enhancement projects, the periodic regulatory review process, reform of the regulatory and contractual framework and European affairs. Prior to joining the company he was chief economist and director of Economics and Finance at the Office of the Rail Regulator. He has also held senior advisory positions at National Economic Research Associates, NM Rothschild and Accenture. He holds a degree and MSc in Economics.

Current external appointments
Chairman of the Planning Oversight Group; director of the Rail Delivery Group; vice president of European Infrastructure Managers

07 Malcolm Brinded
Non-executive director (60)
Appointed to the board: 2010

Skills and experience
Malcolm had a 37-year career at Royal Dutch Shell plc, where he served 10 years on the main board, latterly as executive director responsible for Upstream International and prior to that for global Exploration and Production. Previously he was chairman of Shell UK. He is a fellow of the Institutions of Civil and Mechanical Engineers and of the Royal Academy of Engineering. He has honorary doctorates from Aberdeen and Robert Gordon Universities. Malcolm has been awarded a CBE for his services to the UK oil and gas industry.

Current external appointments
UK business ambassador; non-executive director CH2M Hill; chairman of the Shell Foundation

Committee membership
Safety, health and environment committee

Board of directors

08 **Graham Eccles**
Non-executive director (66)
Appointed to the board: 2010

Skills and experience
Graham has had a 49-year career within the rail industry. He was an executive director at Stagecoach Group plc where he was responsible for developing, implementing and managing Stagecoach Group's heavy and light rail operational activities and in acquiring further, profitable railway business for the group. Former positions include deputy chairman of London Midland, chairman of the South East Strategic Health Authority, managing director of South West Trains and co-chairman of Virgin Rail Group Limited.

Current external appointments
Chairman of Virgin Healthcare Holdings Limited and TXM Group

Committee membership
Safety, health and environment committee; nomination and corporate governance committee; policy and performance committee; chair of remuneration committee

09 **Mike Firth**
Non-executive director (70)
Appointed to the board: 2004

Skills and experience
Mike has 40 years experience in the financial services sector providing a full range of services to major companies including project and acquisition finance in the UK, New York and Los Angeles. His last executive post was head of Corporate Banking at HSBC Bank. He was previously a non-executive director of Somerfield plc and First Technology PLC. He is an associate of the Chartered Institute of Bankers and a fellow of the ifs School of Finance.

Current external appointments
Non-executive director of Communisis plc and Henderson European Focus Trust plc

Committee membership
Audit and risk committee; chair of treasury committee; remuneration committee

10 **Lawrie Haynes**
Non-executive director (60)
Appointed to the board: 2010

Skills and experience
Lawrie is currently president – Marine and Nuclear at Rolls-Royce plc. He has extensive experience in the aerospace and telecommunications sectors and, in the public sector having been chief executive at White Young Green Plc, British Nuclear Group and prior to that being a board director of BNFL Plc. He was also chief executive of the Highways Agency. He holds a degree in business law an honorary doctorate in engineering and is a fellow of the Chartered Institute of Logistics and Transport.

Current external appointments
President – Marine and Nuclear of Rolls-Royce plc

Committee membership
Chair of safety, health and environment committee; audit and risk committee; policy and performance committee

11 **Janis Kong**
Non-executive director (62)
Appointed to the board: 2010

Skills and experience
Janis's executive management experience has been formed through a 33-year career with BAA, during which she held a number of senior operational roles including being a director of BAA Plc and chairman of both Heathrow Airport Ltd and Heathrow Express. Prior to that she was managing director of Gatwick Airport. She was previously a non-executive director of the Royal Bank of Scotland Group Plc.

Current external appointments
Non-executive director of Kingfisher Plc, Portmeirion Group Plc, Visit Britain, TUI Travel PLC and Copenhagen Airport Board

Committee membership
Safety, health and environment committee; audit and risk committee; nomination and corporate governance committee

12 **Keith Ludeman**
Non-executive director and senior independent director (63)
Appointed to the board: 2011

Skills and experience
Keith has many years' experience in the rail and bus service industries, including 15 years with the Go-Ahead Group Plc where he spent five years as chief executive. He was chairman of the Association of Train Operating Companies and a member of the British Transport Police Authority. He is a fellow of the Chartered Institute of Transport and Logistics and a fellow of the Institute of Railway Operators. Keith is also a non-executive director of Network Rail Consulting Limited.

Current external appointments
Chairman of Bristol Water Company; non-executive director of Interserve Plc

Committee membership
Audit and risk committee; chair of nomination and corporate governance committee; chair of policy and performance committee

13 **Michael O'Higgins**
Non-executive director (58)
Appointed to the board: 2012

Skills and experience
Michael has significant public sector and commercial experience. Michael has been chairman of the Audit Commission, managing partner at PA Consulting Group and a partner at PriceWaterhouse. He was also chair of Centrepoint, the youth homelessness charity. He has held visiting academic appointments at the London School of Economics, the Australian National University and Harvard.

Current external appointments
Chairman of The Pensions Regulator, NHS Confederation and Investec Structured Products Calculus VCT plc; non-executive director of HM Treasury

Committee membership
Audit and risk committee; remuneration committee

14 **Bridget Rosewell**
Non-executive director (61)
Appointed to the board: 2011

Skills and experience
Bridget is senior partner of Volterra, producing economic analysis across a range of sectors. Past roles have included being chief economist and chief economic adviser to the Greater London Authority, executive chairman of Business Strategies Ltd, which was subsequently sold to Experian. She was also a founder of Oxford Economic Research Associates (OXERA) and previously held a position as an economics adviser to Chancellor Kenneth Clarke. She was also previously a non-executive director of the Department of Work and Pensions and Britannia Building Society.

Current external appointments
Senior partner Volterra; non-executive director of Ulster Bank; member of with-profits committee, Co-operative Financial Services

Committee membership
Chair of audit and risk committee; policy and performance committee; treasury committee

15 **Suzanne Wise**
Group general counsel and company secretary (51)

Skills and experience
Joined the company in 2012 and is responsible for legal services, company secretariat and transparency and is a member of the group executive. Suzanne has extensive in-house legal and corporate governance experience gained within the listed environment having joined the company from Premier Foods plc where she held the position of general counsel and company secretary. Prior to Premier Foods plc she was head of legal at Gallaher Group plc. In her early career she was a solicitor in private practice.

Corporate governance report

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Corporate governance report

We have bold plans. Delivering them demands high standards of business culture not only in the boardroom but across the whole organisation.

Compliance with the provisions of the UK Corporate Governance Code

The board considers that the company has complied with the UK Corporate Governance Code (the Code) throughout the year.

What is the role of the board?

The board is responsible to members and other stakeholders for the overall leadership and long-term success of the company. The board governs the strategic direction of the business and supervises its operational management within a governance framework which it oversees. The directors both individually and collectively are responsible for driving the success of the company, providing entrepreneurial leadership within the financial and regulatory framework set by Government and establishing prudent, effective controls which enable risk (both operational and financial) to be assessed and managed. The board has overall responsibility for financial performance, internal controls and risk management of the company. It also sets the company's values and standards required to meet its obligations to its members and other key stakeholders.

The board aims to carry out its role by focusing on seven key issues:

- **The purpose and vision of the organisation** why it exists and what it wants to be
- **Its strategy** how it proposes to achieve its purpose and vision and manage risk
- **Performance measurement** implementation and monitoring of the company's financial and non-financial performance, and assessing the board's own performance and that of the executive team
- **Stakeholder engagement** engaging in dialogue and reporting by which it informs members and wider stakeholders, and takes account of, and learns from, the feedback received
- **Added value** generated by constructively questioning and challenging the thinking of the executive management team and ensuring that appropriate resources and controls are in place for operating effectively
- **The company's values** what it stands for and will not stand for
- **Its key relationships** who and what it depends on for success and the development and/or protection of the company's reputation.

"The board is responsible to members and other stakeholders for the overall leadership and long-term success of the company."

Certain matters are formally reserved for decision by the board. These include approval of:

- The group's overall strategy, business plan and annual operating budget
- The annual and half-yearly financial statements of the company
- Material changes to the network licence
- Key pension matters
- Adequacy of internal control systems
- Major capital investments and expenditure
- Risk management strategy
- The appointment of board directors and the company secretary
- The performance reviews of the board and its committees.

How does the board allocate its time?

Board meetings focus on safety, health and environment matters; strategy; operational performance; finance and investment matters; and governance and risk management.

There is an agreed schedule of items to be brought to the board throughout the year.

How frequently did the board meet during the year?

The board has adopted a timetable of eight scheduled board meetings each year with additional meetings being arranged where necessary. Board meetings are generally held at the company's head office in London but at least two meetings a year are held at different national locations. During 2012/13, the board held a meeting at the new national centre in Milton Keynes and in Glasgow, giving the directors the opportunity to visit the sites and meet a cross-section of employees and community stakeholders.

Attendance by directors at board meetings during 2012/13 is set out in the table on page 56.

Are the board minutes of the company published?

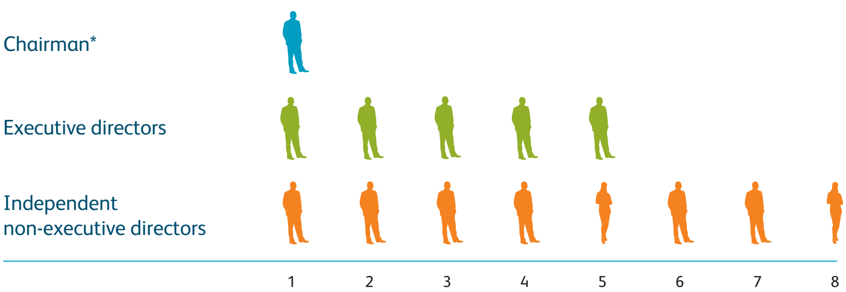
As part of the company's transparency commitment, minutes of board meetings are available at networkrail.co.uk

Who is on the board?

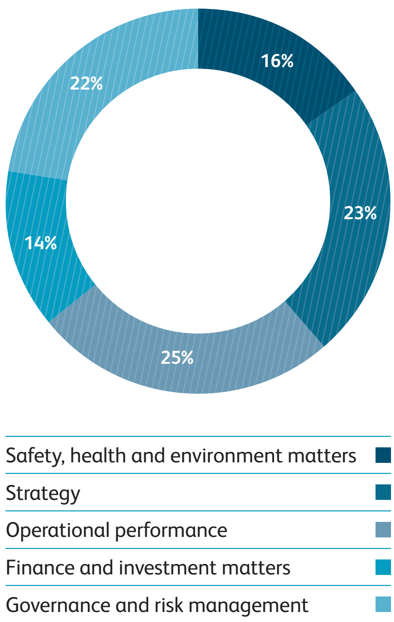
Biographies of the directors who have served during the year are on pages 48 to 50.

Board composition as at 31 March 2013

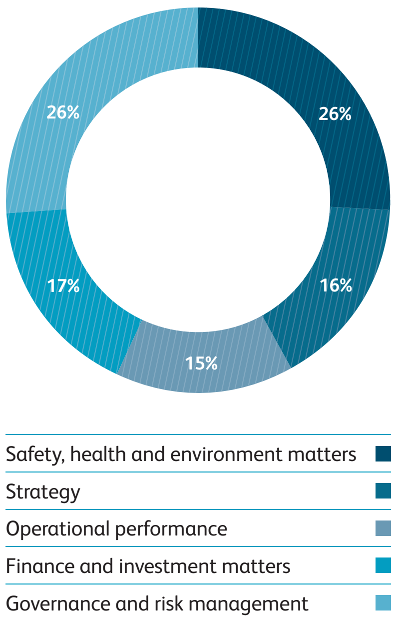
*Independent on appointment



Board allocation of time in 2012/13



Board and committee allocation of time in 2012/13



What changes have been made to the board during the year?

The following changes have been made to the board during the year:

- Rick Haythornthwaite stepped down as the chairman at the company's annual general meeting (AGM) on 19 July 2012. Richard Parry-Jones who was appointed as chairman designate on 28 March 2012, became chairman immediately after the AGM. The board considers that Richard, on appointment, was independent from the company
- Steve Russell stepped down as senior independent director after the AGM on 19 July 2012. Keith Ludeman became senior independent director immediately after the AGM
- Peter Henderson stepped down as the group asset management director after the AGM on 19 July 2012.

In light of these changes, the chairmanship of the committees was reconsidered and the following changes took effect after the 2012 AGM:

- Audit and risk committee – Bridget Rosewell
- Nomination and corporate governance committee – Keith Ludeman
- Policy and performance committee – Keith Ludeman
- Remuneration committee – Graham Eccles.

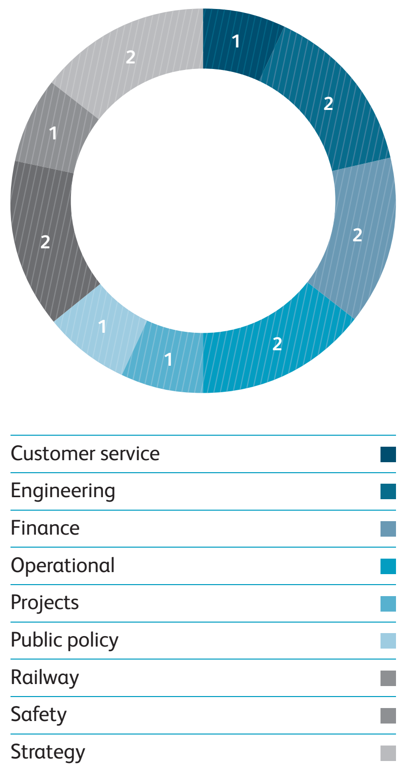
- Michael O'Higgins was appointed as a non-executive director and public interest director on 21 November 2012. His appointment will be put to members for approval at this year's AGM on 18 July 2013. Details of the selection process for this non-executive director position are in the nomination and corporate governance report on page 67
- Graham Eccles has announced that he will not be standing for re-election at this year's AGM. The nomination and corporate governance committee has commenced the selection process, on behalf of the board, to find a suitable successor. Michael O'Higgins will chair the remuneration committee after the AGM.

Are all the directors subject to annual re-election by the members?

All the directors will be presented to members for election or re-election at the AGM except those who have announced their intention to resign. All directors that are subject to election or re-election continue to perform effectively and demonstrate commitment to their respective roles.

Names of the directors submitted for election or re-election with biographical details are provided to members alongside the notice of AGM.

The board's background as at 31 March 2013



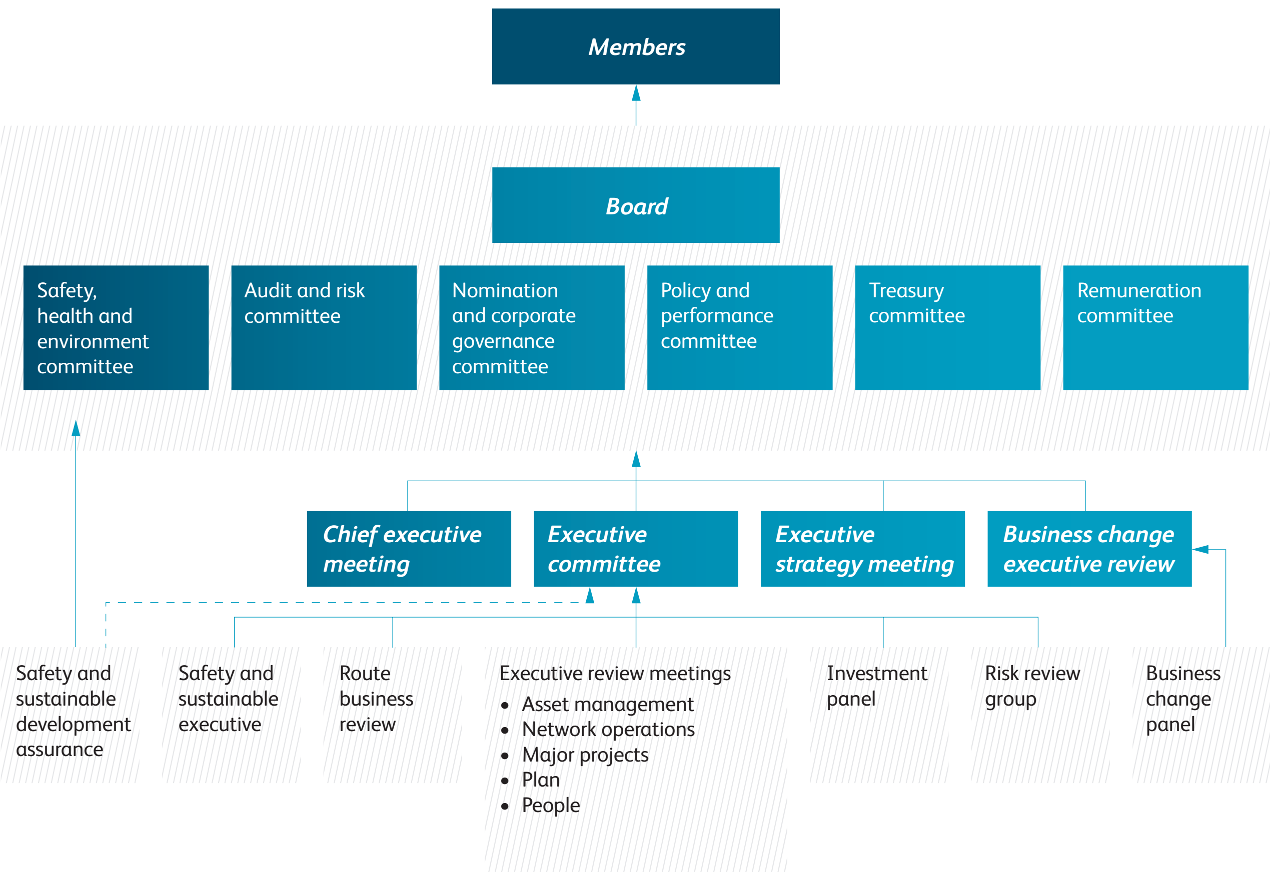
Do any of the directors have conflicts of interest?

The company has procedures for managing conflicts of interest. Directors are required to submit any potential or actual conflicts that they may have with the company to the board for approval and directors have continuing obligations to update the board on any changes to their conflicts with immediate effect. Relevant disclosure is considered at the beginning of each board meeting and directors are also required to complete an annual disclosure of conflicts using a questionnaire.

At no time during the year did any director hold a material or any other interest in any contract with the company or any of its subsidiaries other than service agreements between executive directors and the company and letters of appointment between non-executive directors and the company, save that the reimbursement of expenses and cost of secretarial services for Rick Haythornthwaite was made by payment of £6,069.60 (2011/12: £20,000) to R H Management Limited, in which he has material interest. The reimbursement of expenses and cost of secretarial services for Richard Parry-Jones was made by payment of £16,956.62 (2011/12: £nil) to RPJ Consulting Services Limited in which he has material interest.

The directors have not needed to exercise their powers to authorise any conflict of interest of any director of the company during 2012/13.

Summary board and committees structure



What committees does the board have?

The board has six committees which assist in the discharge of its responsibilities:

- Safety, health and environment committee
- Audit and risk committee
- Nomination and corporate governance committee
- Policy and performance committee
- Treasury committee
- Remuneration committee.

After each committee meeting, the committee chairmen provide written reports and update the board at its next meeting on how the committees have discharged their responsibilities.

The terms of reference for all board committees are at networkrail.co.uk

Details of these committees and their activities during the year are set out on pages 62 to 70.

Attendance at board and committee meetings during the year

	Board	Safety, health and environment	Audit and risk	Nomination and corporate governance	Policy and performance	Treasury	Remuneration
Number of meetings held	8	6	4	3	6	3	8
Attendance							
Richard Parry-Jones	8/8	–	–	–	–	–	6/6
David Higgins	8/8	–	–	–	–	–	–
Patrick Butcher	8/8	–	–	–	–	–	–
Robin Gisby	8/8	–	–	–	–	–	–
Peter Henderson[A]	3/4	–	–	–	–	–	–
Simon Kirby	8/8	–	–	–	–	–	–
Paul Plummer	8/8	–	–	–	–	–	–
Malcolm Brinded	8/8	5/6	–	–	–	–	–
Graham Eccles	8/8	6/6	–	3/3	6/6	–	8/8
Mike Firth	8/8	–	4/4	–	–	3/3	8/8
Lawrie Haynes	7/8	6/6	3/4	–	3/6	–	–
Rick Haythornthwaite[A]	4/4	–	–	1/1	2/2	–	3/3
Janis Kong	7/8	6/6	4/4	3/3	–	–	–
Keith Ludeman	8/8	–	4/4	2/2	6/6	–	–
Michael O'Higgins[B]	1/2	–	1/1	–	–	–	2/3
Bridget Rosewell	8/8	–	3/3	–	6/6	3/3	–
Steve Russell[A]	4/4	–	–	1/1	2/2	–	3/3

Notes

1 All directors are expected to attend board and those committee meetings of which they are members. Processes are in place for minimising directors' non-attendance. The occasions where circumstances prevented a director from attending a meeting were as a result of illness and existing conflicting diary commitments, especially in respect of directors newly appointed during the year or changes to the composition of the committees.

2 Where a director is unable to attend, a meeting, the director will be provided with the papers and given the opportunity to discuss his comments with the chairman prior to the meeting.

A Stepped down from the board on 19 July 2012.
B Appointed to the board on 21 November 2012.

What is the role of the executive directors?

While the board is ultimately responsible for the success of the company, given its size and complexity, operational management is delegated to the chief executive and the executives working for him. The chief executive and four executive directors have specific responsibilities for key parts of the business. They provide the non-executive directors with a wider and more immediate view of operational issues and prevent views and perception from becoming dominated by a single executive voice. Details of the executive directors responsibilities are in the board biographies on pages 48 to 50.

Executive matters are delegated to the executive committee. The committee is chaired by the chief executive and comprises the executive directors and a number of other senior executives. It manages the functions of the business and implements the operational and financial objectives within limits set by the board.

What is the role of the non-executive directors?

The non-executive directors bring independence, external skills and challenge. This is critical for providing assurance that the executive directors are exercising good judgement in delivery of strategy and decision-making.

The non-executive directors combine broad business and commercial experience from the rail and other industry sectors enabling them to:

- Challenge and contribute constructively to the development of group strategy
- Scrutinise the performance of management in meeting agreed objectives
- Monitor operational and financial performance of the business
- Satisfy themselves that internal controls and systems of risk management are apposite for the company's business model.

Careful consideration has been given to the composition of the non-executive directors with the aim of maximising the breadth of skills and experience as well as the mix of individuals holding executive positions and those who have retired from full-time employment in other companies (recognising the respective time commitment opportunities of both). Information on the skills and experience of the non-executive directors can be found in the board biographies on pages 48 to 50.

The board considers that each of the non-executive directors is independent of the company. With regard to the guidelines on the meaning of 'independence' as set out in the Code, it is appropriate to disclose that:

- Graham Eccles receives a pension from the Railway Pension Scheme (RPS). Over 100 companies from the rail industry participate in RPS. The scheme is run by independent trust managers, with trustees drawn from across the membership of the scheme. Given this structure, the board considers that Graham Eccles is independent, as Network Rail is only one of many contributing companies to RPS
- Mike Firth has been a non-executive director for nine years. The board considers that Mike continues to remain independent from the company.

Does the chairman meet with the non-executive directors in the absence of the executive directors?

The chairman holds regular scheduled meetings with the non-executive directors without the executive directors present to discuss the performance of the company under the executive leadership. In 2012/13 the non-executive directors met separately from the executive directors on three occasions. Separately, the chairman arranged a risk workshop for the non-executive directors, facilitated by the internal risk management function, at which the executive directors were not present.

What are the roles and responsibilities of the key board members and the company secretary?

Role of the chairman

The chairman is responsible for leadership of the board and its effective functioning. The chairman is specifically responsible for the following:

- Setting the agenda and chairing board meetings, so that adequate time is available to focus on all agenda items during the meeting
- Encouraging all directors to actively contribute to board discussions and setting the conditions for constructive relations between the executive directors and non-executive directors
- Promoting the highest standards of corporate governance, including compliance with the Code wherever possible
- Promoting the requirement that all board members are exemplars of the company's values, principles and standards
- Through the nomination and corporate governance committee, ensuring that the board comprises individuals with an appropriate mixture of skills, experience and knowledge
- Ensuring that the company maintains effective communication with members, and that their views and any concerns are understood by the board
- Working with the chief executive to ensure that the board receives accurate and timely information on the performance of the company
- Representing the company at the highest level and, in conjunction with the chief executive, developing strategic relationships with major customers and political leaders
- Leading the evaluation of the performance of the board, its committees and individual directors
- Establishing an effective working relationship with the chief executive, providing support and advice while respecting executive responsibility
- Ensuring that a well-constructed induction programme is provided for new directors, enabling them to meet members and key stakeholders
- Ensuring that all directors have the opportunity to develop their understanding of the company and that they are kept informed of matters affecting the company.

Role of the chief executive

The chief executive is responsible for the leadership and management of the company within the strategy and business plan agreed by the board.

The chief executive is specifically responsible for the following in respect of his relationship with the board:

- Developing a business strategy for the company to be approved by the board on an annual basis
- Producing business plans for the company to be approved by the board on an annual basis
- Overseeing the management of the executive resource and succession planning processes, and presenting annually the output from these to the board and nomination and corporate governance committee
- Ensuring that effective business and financial controls, and risk management processes are in place across the company and that all relevant laws and regulations are complied with
- Making recommendations to the board on the appropriate delegation of authority within the group
- Keeping the board informed regularly as to the performance of the company and bringing promptly to the board's attention all matters that materially affect, or are capable of materially affecting, the performance of the company and the achievement of its strategy
- Developing for the board's approval appropriate values and standards to guide all activities undertaken by the company
- Providing clear and visible leadership in business conduct
- Promoting the requirement that all executive leaders are exemplars of the company's values, principles and standards
- Owning the company's commitment to all aspects of corporate responsibility.

Role of the senior independent director

The senior independent director is responsible for the following:

- Being available to members if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate
- Providing a sounding board for the chairman and serving as an intermediary for the other directors when necessary
- Providing feedback on the chairman's performance as derived from the evaluation exercise undertaken by the board
- Chairing a meeting with the non-executive directors without the chairman present at which the chairman's leadership of the board is discussed, taking into account the views of the executive directors.

Role of the company secretary

The group general counsel acts as the company secretary and is specifically responsible for the following:

- Under the direction of the chairman, ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction activities for directors and assisting with their development as required
- Advising the board through the chairman on all governance matters.

Full statements of responsibility for the chairman, chief executive and senior independent director are published at networkrail.co.uk

What is the time commitment expected of the chairman and what are his other significant commitments?

The chairman's contractual commitment to the group is two days per week. The chairman has confirmed that the performance of his outside responsibilities continues to be achieved without detriment to his duties to the company and he anticipates this will remain so going forward. The chairman's main interests outside the company are set out in his biographical details on page 49.

What are the directors paid?

Details of the directors' service contracts, letters of appointment and remuneration can be found in the remuneration report on pages 74 to 94.

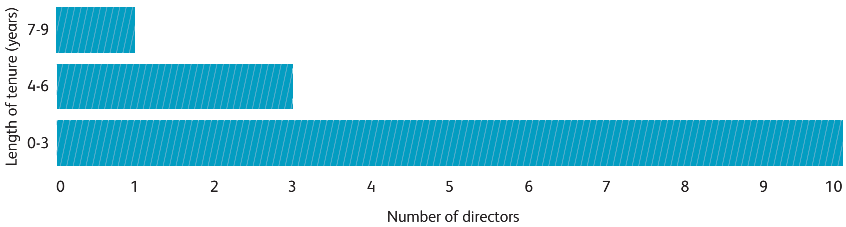
Does the company maintain directors' and officers' liability insurance?

The company maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against directors.

25%

The board has an aspirational target of at least 25 per cent of the non-executive directors being women by 2015.

What is the length of tenure of directors?



What commitment has the company made to diversity and inclusion at board level?

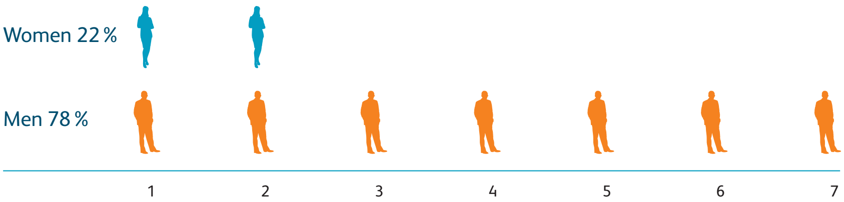
The board seeks to maximise its effectiveness by bringing together people with the right mix of skills, knowledge and experience. Diversity, in all its aspects, is an important element in the composition of a board.

Appointments shall always be made on the basis of merit and seek to leverage the benefits of diverse talent. With regard to gender diversity the board has agreed the following:

- In seeking candidates for appointment to the board, the nomination and corporate governance committee will only engage the services of search consultants who have open and inclusive recruitment processes that draw from an appropriately diverse pool of candidates
- It will have an aspirational target of at least 25 per cent of the non-executive directors being women by 2015
- Through its regular reviews of management succession planning it will oversee the effectiveness of the actions being taken by management to ensure that the composition of the executive leadership team reflects the entirety of the management talent pool available within the company and the wider market.

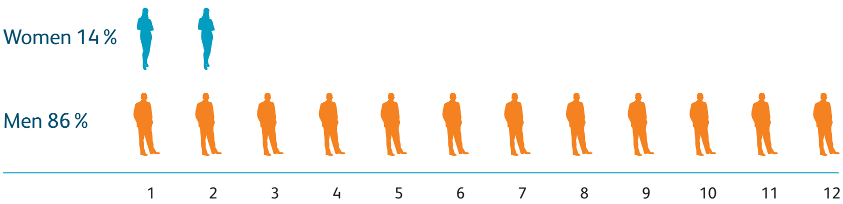
Initiatives under way in the company to drive diversity at all levels below board are set out on page 43.

Split of men to women non-executive* directors as at 31 March 2013



* Including the chairman

Split of men to women on the board as at 31 March 2013



Does the company have an induction programme for new directors?

A typical director's induction programme in 2012/13

Operational site visits:	Internal meetings held with:	External meetings held with:
• **Thameslink** – Blackfriars and London Bridge site tours • **King's Cross St Pancras or Liverpool Street tour** – with station manager • **Route visit** – to meet route control, level crossing, station and training centre teams.	• Each non-executive director • Each executive committee member.	• Chair of the Office of Rail Regulation • Director General, Department for Transport.
Briefing with group general counsel on: • Board level governance • Directors' duties • Members • Management incentive plan • Major litigation.	**Induction with safety and sustainable development director on:** • Safety-related matters • Safety management system • Directors' responsibilities.	**Any other site visit/meeting considered pertinent for fulfilling the role**

How does the board keep up to date with business developments?

Directors are encouraged to update their skills, knowledge and familiarity with the group through ongoing participation at board and committee meetings; meetings with senior managers; and other employees. During the year, the board received briefings outside of the board meetings on: the ORBIS (offering rail better information services) programme (further details of this programme are on page 38); the periodic review process to determine the outputs and funding for Control Period 5 and the revised approach to refranchising and the implications for Network Rail following the Brown review of rail reform. The board also held an off-site annual strategy day and attended Rolls-Royce's Turbine Blade Facility to consider Rolls-Royce's perspective on technology innovation.

How does the board keep up to date on key governance issues?

The board considers that keeping up to date with developments in corporate governance is important for its effective functioning. The group general counsel provides briefings on regulatory and governance-related matters tailored for Network Rail's business model. During the year the focus of these briefings has been on: business ethics; board effectiveness; changes to the Code and its Guidance for Audit Committees and Business Innovation and Skills proposals on narrative reporting and executive remuneration.

How do the board and its committees remain effective?

The nomination and corporate governance committee is charged by the board to review annually the performance of the board, its committees and individual directors.

Board evaluations focus on the extent the board works together as a whole, alongside the balance and effectiveness of the individual directors. There is a recognition that a non-diverse board encourages group-think.

Following external board effectiveness reviews, carried out by Deloitte in 2011 and 2012, this year the board undertook an internal review of the effectiveness of the board and its committees. The next external review will take place in 2014 in line with the Code.

As part of this year's review, the chairman interviewed each executive and non-executive director between January and March 2013 to determine their individual views on the effectiveness of the board and identify what was working well and any areas for improvement. Areas covered included:

- Information flows, board papers and agenda composition
- Board dynamics and relationships between board members
- Composition of the board and its skills
- Discussion topics and decision making including the balance between operational and strategic matters
- Value creation, strategy and performance
- Effectiveness of the board committees.

The company secretary compiled a report on the results of the review. The findings of the review together with the recommendations from the chairman were then considered by the board. The board and its committees were found to be effective with the directors viewed overall as high calibre and in the case of the non-executive directors, providing significant and robust challenge in key strategic areas, such as safety and performance.

The key areas that were identified as requiring further work and improvement concerned the shape of the board agenda, specifically the balance between review of operational performance and discussion of strategic issues; and the quality of papers and reports for the board. Improvement in both these areas was already work in progress at the time of the review, with the company secretary having engaged the services of an external consultancy Board Intelligence, who have no connection with the company, who were undertaking a detailed external review in this area. As part of the review undertaken by Board Intelligence, the board has agreed its priorities for the next 12-18 months.

Do the directors have access to independent professional advice?

There is a procedure whereby directors, wishing to do so in furtherance of their duties, may take independent professional advice at Network Rail's expense. In addition, all directors have access to the advice and services of the group general counsel.

The board's 12-18 month priorities

	Strategy 50 %	**Operational performance** 25 %	**Governance** 25 %
Stewardship	**Beyond the next 5y (25%)** • Control Periods 6/7 strategy • Long-term funding strategy **For the next 5y (75%)** • Progressing 10 strategic themes • External developments • Building stakeholder relationships • Research and development/technology investment plan • Talent development plan • Major programme prioritisation	• Delivery plan and targets for Control Period 5 (CP5) • Improving operational effectiveness • Improving asset management • Improving reliability of infrastructure	• Developing cultural tone (across safety, transparency and service) • Enhancing external reputation • Executive remuneration plan[†] • Succession planning[†] and building the team we need for CP5 • Developing new governance and risk assurance (GRA) process[†] • Setting risk appetite • Identifying new risks
Supervisory	• Delivery of CP5 strategy • Delivery of 10 strategic themes • Delivery of research and development investment plans • Delivery of major programmes • Impact of devolution • Competitiveness	• Delivery of Control Period 4 and CP5 targets – Safety (workforce and passengers)[†] – Train performance[†] – Customer service – Value for money – Asset management – Infrastructure reliability	• Insight into people and culture • Assurance and audit processes[†] • Policy adherence[†] • Monitoring new GRA process[†] • Risk management[†]

†Priorities to be dealt with by the board committees and reported to the board

Safety, health and environment committee report

Lawrie Haynes
Chairman, safety, health and environment committee

Who is on the committee?

Current members	From
Lawrie Haynes (Chairman from September 2010)	January 2010
Malcolm Brinded	November 2010
Graham Eccles	February 2010
Janis Kong	January 2010

Who attends meetings of the committee?

The chairman; chief executive; managing director, Network Operations, managing director, Infrastructure Projects; group general counsel; group asset management director; and the safety and sustainable development director attend the meetings by invitation.

Representatives from the company's trade unions have been invited to attend the meetings. Mick Cash, senior assistant general secretary of the RMT, is currently attending committee meetings. Mick participates in, and introduces topics for discussion by the committee. This aids scrutiny and challenge and enhances transparency of the work of the committee.

During the year, representatives from Samaritans attended a meeting to present their Suicide Reduction Programme and Andrew Trotter, the chief constable, from the British Transport Police (BTP) provided an update on trespass on the line and how Network Rail and the BTP are engaged in reducing this.

In addition, Ian Prosser, head of safety for the Office of Rail Regulation, attended a meeting to present the regulator's view on the company's safety performance for the year.

How many meetings were held during the year?

The committee met six times during the year.

What is the role of the committee?

The committee's role is to monitor the integrity of the methods of discharge of the safety, health and environmental responsibilities of the company and to satisfy itself as to the adequacy and effectiveness of the safety, health and environment policies and strategies within the group, taking into account relevant standards and requirements.

The committee's responsibilities include:

- Monitoring the group's safety, health and environment policies and strategies
- Considering significant corporate and individual safety risks, health and environment risks and whether management is managing these effectively
- Reviewing the structure, adequacy and effectiveness of safety, health and environment managerial committees within the company
- Reviewing the scope and results of any safety, health and environment audit, the effectiveness of the respective audit policies and strategies, the audit's cost-effectiveness and the independence and objectivity of the audit body
- Considering the major findings of internal and external investigations and management's response and, where necessary, making recommendations to the board in respect of the same.

What were the principal activities of the committee during the year?

The committee's activities in 2012/13 included (but were not exclusive to):

Leadership

- Oversaw and received progress updates on the safety culture programme, examining how this will deliver the company's vision: 'Everyone home safe, every day'
- Oversaw the development of the 'Transforming Safety and Well-being' strategy including the outcome, output and activity objectives necessary to achieve the vision
- Oversaw the strategy for the enhancement of employee health and well-being in relation to Network Rail's long-term commitment to improving occupational health management
- Oversaw the governance of safety and sustainable development matters within the company including scrutinising safety risk and assurance audit programme updates.

Performance

- Received periodic reports, from the safety and sustainable development director, on safety, health and environment performance of the company in respect of:
  - Workforce safety
  - Public safety
  - Passenger safety
  - System safety precursors
- Received briefings on safety performance from the group asset management director, managing director, Network Operations, and managing director, Infrastructure Projects, on their areas of responsibility.

Risk management

- Engaged with the executive management team on key areas including:
  - Progress made by the national level crossing team in respect of the programme to reduce risk and improve safety at level crossings
  - A deep-dive strategic review of signalling systems and the risk of train collision
  - Trends in irregular working events, which can be defined as the failure to carry out tasks and procedures in the prescribed manner
  - Safety risk aspects and principal processes used to manage structures including earthworks assets
  - The commercial and assurance risks associated with the current use of contingent labour and proposed improvement actions.

Learnings from incidents

- Reviewed learnings derived from incidents and near misses.

Lawrie Haynes
Chairman, safety, health and environment committee

"The committee's role is to monitor the integrity of the methods of discharge of the safety, health and environmental responsibilities of the company."

Audit and risk committee report

Bridget Rosewell
Chairman, audit and risk committee

Who is on the committee?

Current members	From
Bridget Rosewell* (Chairman)	July 2012
Mike Firth** (Chairman January 2006 – July 2012)	December 2004
Lawrie Haynes	November 2010
Janis Kong	January 2010
Keith Ludeman	July 2011
Michael O'Higgins	February 2013

* Bridget Rosewell is current chair of the risk committee of Ulster Bank. She was previously chair of the audit committees for Britannia Building Society and the Department for Work and Pensions.

** Mike Firth has a strong and lengthy financial background, including experience of chairing listed company's audit committees. He is also a fellow of the ifs School of Finance and an associate of the Chartered Institute of Bankers.

Who attends meetings of the committee?

The chairman; chief executive; group finance director; group general counsel; head of internal audit; and interim group risk manager attend meetings of the committee by invitation. Two representatives from the independent auditors also attend each meeting and periodically meet with the committee without executive management present.

How many meetings were held during the year?

The committee met four times during the year.

What is the role of the committee?

The committee has been delegated authority by the board to:

- Monitor the internal control framework and the register of financial and non-financial risks (so far as these are not reviewed by other board committees such as the safety, health and environment committee)
- Monitor financial reporting policies and practices and compliance with accounting standards
- Review significant accounting estimates and judgements
- Monitor the integrity of the half-year and annual financial statements of the company and recommend to the board their approval
- Consider and make recommendations to the board in relation to the appointment, reappointment and removal of the independent auditors following its assessment of their independence and objectivity (including the safeguards that are in place to maintain such independence) and their terms of engagement and remuneration
- Monitor and review the effectiveness of the internal and external audit process including the scope of the planned audits and the audit findings
- Review the policy and procedure whereby employees can raise, in confidence, concerns about possible improprieties
- Oversee the process for the identification and management of risk.

What were the principal activities of the committee during the year?

Internal controls and risk management

- Considered reports from the independent auditors, PricewaterhouseCoopers LLP (PwC), and the internal audit function on work undertaken in reviewing and auditing the control environment
- Reviewed risk management reports, identifying high-level risks and the status of mitigation, current risk profile, changes to the profile during the year and considered the progress that has been undertaken in relation to the several strategic risks

- Provided oversight and received the outputs, on behalf of the board, of the review undertaken by KPMG in the response to 'Resolution 24'; a resolution proposed and approved by members at the 2011 AGM, whereby the non-executive directors were asked to conduct a review into the company's internal audit, investigatory and response processes
- Assessed the effectiveness of the group's internal controls and reviewed the related disclosures in the 2011/12 annual report
- Reviewed the policy and procedure whereby employees can raise, in confidence, concerns about possible improprieties
- Considered the mitigating actions for the risks in relation to the Crossrail programme and the European Train Control System project.

Financial reporting

- Reviewed the 2011/12 financial statements and the 2012 half-yearly report, and the significant financial reporting judgements contained within them
- Reviewed the basis for preparing the group accounts on a going concern basis
- Scrutinised the principles of efficiency reporting calculations with senior management and ARUP.

Internal audit

- Agreed the internal audit programme for 2013/14
- Reviewed output from, and considered progress against, the internal audit programme four times during the year
- Reviewed the effectiveness of the group's internal audit function.

The independent auditors

- Received a report from PwC on the 2011/12 financial statements and the 2012 half-yearly report
- Agreed the approach and scope of the audit work to be undertaken by the independent auditors
- Reviewed with the independent auditors the findings of their work
- Reviewed the group's processes for disclosing information to the independent auditors and the related statement in the 2012/13 annual report and financial statements
- Agreed the fees payable in respect of the 2012/13 audit work
- Reviewed the nature and cost of non-audit work undertaken by the independent auditors in 2012/13
- Received confirmation from the independent auditors regarding their independence.

"Whilst the ultimate responsibility for risk management rests with the board it delegates the more detailed oversight of risk management to the committee which reports its findings to the board."

Audit and risk committee report continued

What is the role of the internal audit function?

The company has an independent internal audit function whose primary role is to provide objective and independent assurance regarding the adequacy of the group's internal control framework and compliance with policies, laws and regulations. Internal audit is also responsible for reviewing the effective operation of the company-wide risk management system as well as improving processes, providing advice and proliferating best practice.

The work of internal audit is focused on the areas of priority as identified by risk and materiality analysis and is in accordance with an annual audit plan which is approved by the committee. Internal audit failed to complete the audit plan for the year, primarily due to reorganisation and delays in resourcing the function. The plan was reprioritised to reflect key risks within the business and outstanding audits were incorporated into future audit planning process, where applicable.

The committee receives regular reports on audit findings from the head of internal audit, who has direct access to the chairman of the committee. Recommendations to improve the internal control framework are reported to the committee through this process.

How is the independent auditor's objectivity and independence safeguarded?

The committee has put in place safeguards to protect independent auditor objectivity and independence. It has established a policy whereby employment of the independent auditor on work for Network Rail is prohibited, other than for audit services or tax consulting services, without prior approval by the committee. The committee is responsible for the oversight of compliance with the policy and considers the infrequent requests to use the independent auditor for non-audit work.

In 2012/13 the fee for audit services was £0.5m (2011/12: £0.4m) and the fee for non-audit services was £0.5m (2011/12: £0.2m) which was in respect of the regulatory returns review; the review of half-year results; the secondment of two individuals in a project management role on the ORBIS programme (offering rail better information services).

Furthermore, to enhance independence and in line with established auditing standards, a new lead partner of the independent auditors is appointed every five years, with other key audit principals within that firm rotated every seven years.

The committee has responsibility for advising the board on the appointment; reappointment; and the remuneration of the independent auditors. PwC have been the group's independent auditors since 2010, where they were recommended by the committee to the board for appointment, following a re-tender of external audit services.

Prior to PwC commencing their audit of the 2012/13 annual financial results, the committee requested that the lead partner present to them their audit plan. The presentation covered PwC's proposed engagement with Network Rail and how PwC have addressed prior feedback from both the committee and senior management. The presentation was critically considered by the committee and comments provided to the lead partner.

In May 2013, the committee recommended to the board that PwC be presented for reappointment as the company's auditors at the AGM in July 2013. The board accepted the recommendation and the re-election of PwC as the group's independent auditors will be proposed at the 2013 AGM.

What are the committee's responsibilities for risk management?

Whilst the ultimate responsibility for risk management rests with the board it delegates the more detailed oversight of risk management to the committee which reports its findings to the board.

Further details on the risk management and assurance process are on pages 26 to 29.

Bridget Rosewell
Chairman, audit and risk committee

Nomination and corporate governance committee report

Keith Ludeman
Chairman, nomination and corporate governance committee

Who is on the committee?

Current members	From
Keith Ludeman (Chairman)	July 2012
Graham Eccles	July 2010
Janis Kong	July 2010
Previous members	**From/To**
Steve Russell*	November 2008 – July 2012
Rick Haythornthwaite*	March 2009 – July 2012

* Stepped down from the board on 19 July 2012

Who attends meetings of the committee?

The chairman; chief executive; group general counsel; and director, human resources attend certain meetings by invitation.

How many meetings were held during the year?

Although the committee only met formally three times during the year, the members of the committee met a number of times in respect of the appointment of a new non-executive director.

What is the role of the committee?

The role of the committee includes:

- Reviewing regularly the size, structure and composition of the board and its committees, making recommendations to the board on any adjustments that may be deemed necessary and feasible
- Evaluating the balance of skills, experience, independence and knowledge of the board
- Identifying and nominating candidates for appointment to the board
- Satisfying itself that appropriate succession planning is in place
- Assisting the board on matters related to the effective governance of the company, including reviewing and making recommendations to the board on corporate governance best practice.

What were the principal activities of the committee during the year?

Recruitment of non-executive director

In line with the company's governance reforms, as supported by the government and the members, it was agreed to appoint an independent non-executive director with a particular skillset to help intensify the focus on serving the public interest. The committee was tasked with identifying and nominating a suitable candidate for the board to approve.

The committee prepared a person specification for the role, taking into account the feedback from key stakeholders, skills and experience already on the board, the Code and the articles of association of the company.

Odgers Berndtson, who have no connection with the company other than for executive search purposes are signatories to the Voluntary Code of Conduct for Executive Search Firms, were engaged to identify candidates against this specification. In parallel with this, an advertisement was placed in the *Sunday Times*.

Nomination and corporate governance committee report
continued

Candidates from a wide range of relevant industry sectors and from both recruitment methods were identified and interviewed by the members of the committee. Having fully tested the market and assessing all candidates against the role requirements, the committee recommended to the board the appointment of Michael O'Higgins as non-executive director. Michael's appointment was approved by the board at its November 2012 meeting and Michael will be presented to members for election at Network Rail's AGM in July 2013.

The committee was mindful of the benefits of board diversity throughout the selection process and it is considered that Michael's extensive public sector expertise adds a new dimension of challenge to the board.

Michael O'Higgins was provided with an induction programme suitable for his role. Page 60 details a typical Network Rail induction programme which is provided to all new board directors.

Succession planning
The committee reviewed the company's succession planning process, with a particular focus on the development of senior operational managers. It was recognised that an effective talent management programme across all levels of the organisation which encourages diversity and capability to thrive, is essential for the delivery of Network Rail's long-term objectives.

Keith Ludeman
Chairman, nomination and corporate governance committee

Policy and performance committee report

Keith Ludeman
Chairman, policy and performance committee

Who is on the committee?

Current members	From
Keith Ludeman (Chairman from July 2012)	July 2011
Graham Eccles	March 2010
Lawrie Haynes	March 2010
Bridget Rosewell (Chairman to July 2012)	January 2011
Previous members	**From/to**
Rick Haythornthwaite	January 2010 – July 2012
Steve Russell	January 2010 – July 2012

Who attends meetings of the committee?

The chairman, chief executive, group strategy director, managing director, Network Operations, group asset management director and occasionally other executive directors, attend by invitation.

How many meetings were held during the year?

The policy and performance committee met six times during the year.

What is the role of the committee?

The main responsibilities of the committee are to monitor progress in delivering the regulatory outputs reflected in the delivery plans or against other targets or plans agreed by the company including performance (including public performance measure, service cancellations/significant delays, delay minutes), capability, capacity, availability, customer satisfaction (with particular emphasis on the company's customers and their customers) and more general compliance with key regulatory obligations. It also monitors Network Rail's stewardship of the railway infrastructure (covering the planning and delivery of maintenance and renewals).

What were the principal activities of the committee discussed during the year?

The committee's activities in 2012/2013 included (but were not exclusive to):

- Received updates on current train performance, scrutinising the response to the ORR finding Network Rail in breach of its licence and the outline projections for the balance of CP4. The issues raised in the ORR enforcement orders, and in particular actions in relation to performance for freight, Scotland, London & South East and long distance, were addressed including performance against the revised joint performance improvement plans
- Received updates on the progress against CP4 delivery plan, compliance with other regulatory obligations and reform of the industry regulatory and contractual framework
- Received reports on progress against the key periodic review 2013 milestones and in particular the development of the Strategic Business Plans for England & Wales and Scotland for Control Period 5 and beyond
- Reviewed the results of the stakeholder surveys – customers, enhancement funders and supplier perceptions.

Keith Ludeman
Chairman, policy and performance committee

Treasury committee report

Mike Firth
Chairman, treasury committee

Who is on the committee?

Current members	From
Mike Firth (Chairman)	December 2004
Bridget Rosewell	July 2012
Previous members	**From/to**
Steve Russell*	July 2008 – July 2012

* Stepped down from the board on 19 July 2012

Who attends meetings of the committee?
The chairman, group finance director, group general counsel; group treasurer and head of treasury operations attend meetings by invitation.

How many meetings were held during the year?
The treasury committee met three times during the year.

What is the role of the committee?
The committee's role is to review and satisfy itself as to the appropriateness of proposed treasury transactions including banking, cash management, debt raising and management and investment management.

What were the principal activities of the committee during the year?
The committee considers on a routine basis:

- The treasury risk register
- Debt issuance and investments
- Interest-rate hedging
- The group's treasury policy and its approval.

During the year, the committee also focused on the following agenda items:

- The progress on the proposed financial framework for Control Period 5
- The rationale and agreement for the move from one-way to two-way collateral support annexes
- The company's index-linked debt programme and index-linked issuance strategy.

The Office of National Statistics' consultation on the potential change to the retail price index has been closely monitored by group treasury. The committee has been kept informed of developments and scrutinised the potential impact to the company throughout the consultation process. The committee remains mindful of the current volatility in the financial markets and has sought assurance from the executive team on the company's proactiveness and responsiveness to the markets and credit rating agencies.

Mike Firth
Chairman, treasury committee

Engaging with members

Engaging with members

Who are the members?

Members perform a similar role to institutional investors in a listed public limited company, except as a company limited by guarantee; members do not have any financial interest in the company.

Members hold the board to account for its management of the company by:

- Monitoring the performance of the board against high standards of corporate governance, government operational output specifications and regulatory operational and financial targets
- Engaging with the board, in an informed and objective manner, on their performance
- Seeking assurance that governance procedures are designed to facilitate the delivery of strategic objectives
- Attending and voting at general meetings of the company.

As at 31 March 2013, the company had 44 members and the Department for Transport, as a special member.

Further details of the role and the biographies of the members are at networkrail.co.uk

What changes occurred to the membership model during the year?

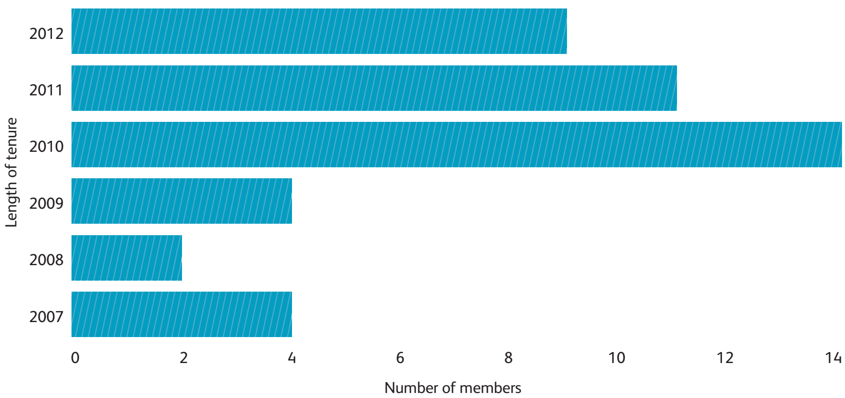
In March 2012, the company announced proposed changes to its membership structure designed to help members in holding the board to account. This included a reduction in the size of the membership through the removal of the industry representatives as a class of members. At the company's AGM in July 2012, a special resolution was unanimously approved, to effect the removal of industry membership. As such, the industry representatives stepped down as members immediately after the AGM.

How are new members appointed?

Members are recruited on an annual basis and are currently appointed for a three-year term. Members are appointed in accordance with the membership policy, which is overseen by the membership selection panel and supported by Harvey Nash. Further details of the selection and recruitment process can be found at networkrail.co.uk

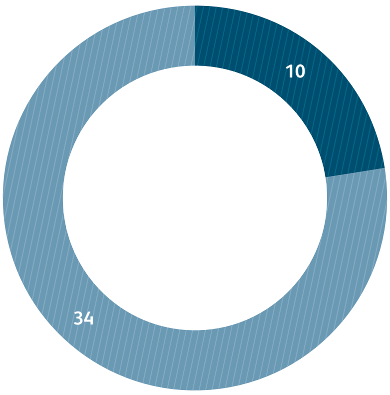
On 26 November 2012 nine new public members were appointed, four were re-elected and 17 retired.

Length of tenure as a member as at 31 March 2013



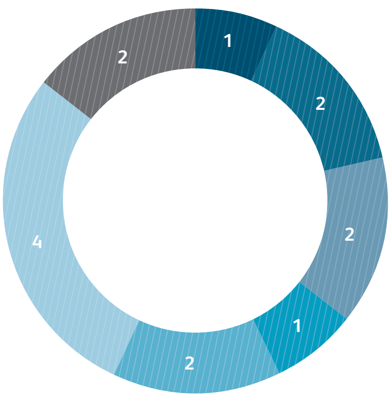
Engaging with members continued

Split of men to women members as at 31 March 2013



Female	
Male	

Allocation of scheduled members' events during 2012/13



AGM	
Conference calls	
Engagement group meetings	
Half-year meeting	
Meeting with the Office of Rail Regulation	
Members' workshop	
Site visits	

How does the company engage with members?

Members' relations is managed by the group general counsel and overseen by the chairman. The chairman regularly updates the board at its meetings on the company's engagement with members.

The company has developed its member relations programme to support the new membership model. Progress made over the course of 2012/13 included the:

- Establishment of member engagement groups in key strategic areas – people, safety, future, performance and finance and risk where a forum of self-elected members raise and consider key matters with senior management, and the non-executive directors, enabling members to be better informed and sharpening overall scrutiny of the board
- Introduction of an extensive two-day induction programme for new members, in conjunction with Cranfield University's School of Management to understand more fully the Network Rail business and the governance structure
- Provision of a service level agreement to objectively measure the company's delivery of service to its members
- Launch of a new members' section on the Network Rail website detailing the biographies of members, minutes of members' meetings and members' expenses.

This is in addition to the existing engagement programme the company undertakes with its members. The following was provided for members over the course of 2012/13:

- A half-yearly meeting with the chairman, group finance director and other non-executive directors to consider the company's half-year results
- Four members' meetings which included scrutiny sessions where members were able to question the chairman and non-executive directors on the methods discharged for holding the executive directors to account
- Two meetings with the Office of Rail Regulator to consider the regulator's view on the company's performance
- A quarterly letter from the chairman detailing the board's strategic and governance developments over the preceding three months
- Operational site visits: a site visit to Manchester which included receiving a presentation from the London North Western's route managing director on the route's vision and a tour of a control centre and Manchester Victoria station. An opportunity to travel on the New Measurement Train to understand more fully the use of asset management information and technology.

What happens at the AGM?

The AGM provides an opportunity for the board to communicate with the members. Prior to the formal business of the AGM, the chief executive presents to members on past year performance and future plans for the company. Members are encouraged to engage during the meeting with the committee chairmen and other directors. Members are also able to submit written questions in advance of the meeting, enabling the directors to prepare a comprehensive response.

All directors are encouraged to attend the AGM and all attended the 2012 AGM. Directors are also available to engage with members before and after the AGM.

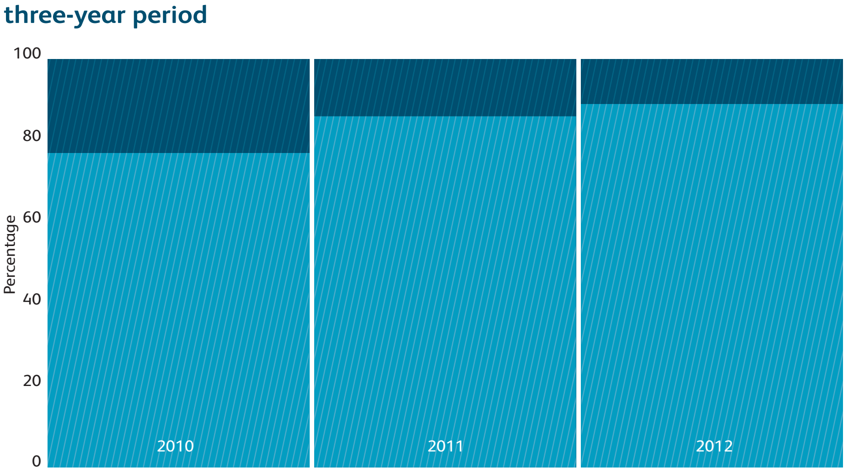
The formal business of the AGM is separated out into single separate resolutions. Members have requisitioned resolutions at the majority of the AGMs since 2004 on a range of topics relating to operational performance and reporting, members' governance arrangements and incentive awards.

Poll voting is adopted for all resolutions. All members are provided with proxy forms with the option to vote either for or against a resolution, or to withhold their vote. Final voting figures are then announced to the London Stock Exchange.

The notice of the AGM with explanations of the business to be conducted alongside the annual report and financial statements is mailed to members with the aim of arriving at least 20 business days before the date of the meeting.

The next AGM will be held on 18 July 2013.

Members' voting at AGMs over a three-year period



Directors' remuneration report

Graham Eccles
Chairman, remuneration committee

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The committee is aware of the importance of clearly explaining to stakeholders how pay at Network Rail is determined.

During the year we have made significant changes to the way in which we consider pay. We have extended consultation with members and have sought to engage positively and productively with the Office of Rail Regulation (ORR) and other stakeholders to ensure we have widespread understanding and support.

The principles of decision making for the committee are:

- Aligning pay with performance
- No reward for failure
- Performance measurement strikes a balance between improving efficiency, the quality of the railway network and saving money for tax payers
- Safety of the workforce, passengers and the general public remains paramount.

Pay for performance

From an operational perspective this was a year that saw some successes as well as some areas where there is still work to do, such as train performance and asset stewardship. During the year, the following was achieved:

- Passenger satisfaction reached a record high – 85 per cent
- Passenger numbers reached 1.5bn for the first time since the 1920s
- 95 per cent of passengers felt that rail travel during the Olympics had exceeded or met their expectations
- £4.4bn worth of work on almost 2,000 projects aimed at improving and expanding the railway
- 201 bridges were renewed and rebuilt
- 940 miles of track were replaced
- Almost 91 per cent of trains for the 12 months ran to time, but below the targets set by the ORR
- Significant improvement in customer (passenger and freight operators) satisfaction.

In this overall context, the bonus outcome for 2012/13 fairly reflects performance. The award for executive directors will be equivalent to 17.17 per cent of salary out of a maximum possible award of 60 per cent of salary.

During the year the committee also assessed performance for the 2009-12 LTIP which was based on performance to March 2012 and was originally approved at the AGM in 2009. The 2012-15 LTIP will be presented to members for approval at the AGM in July.

Looking ahead

It is important that we pay people fairly and in a way which can attract and retain talent of the highest calibre. Incentives have the potential to drive a wholesale shift in our performance in a way which creates exceptional value for taxpayers, the railway and its users.

Initial work on the pay framework for Control Period 5 has started. The focus will be on alignment with the long-term business strategy and investment objectives for 2014 to 2019. Any new framework will be discussed fully with our stakeholders prior to finalisation.

Graham Eccles
Chairman,
Remuneration committee
5 June 2013

Unaudited information

Governance

Who is responsible for determining executive pay at Network Rail?

The remuneration committee determines pay levels and administers incentive plans, recognising the commercial nature of the organisation. Consistent with best practice among larger listed companies, members are provided with the opportunity to vote on remuneration matters. Firstly, the operation of the long-term incentive plan is subject to obtaining approval by members at a general meeting. Secondly, members have an advisory vote on the remuneration report. As the regulator, the ORR must also confirm that the incentive framework meets the network licence conditions.

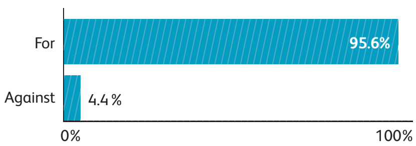
The remuneration committee has considered Network Rail's position in comparison to other companies and has concluded that for remuneration purposes it should be positioned slightly above public interest comparators because of the significant safety responsibilities, but at the lower end of private sector comparators because of the absence of equity pressures. This is explained in more detail on page 78.

From next year, in line with listed companies, Network Rail will report under the new reporting framework which is currently being finalised by the Department for Business, Innovation and Skills (BIS). Under the new reporting framework the company's remuneration policy will need to be formally approved by members and, following adoption, payments outside of the policy will not be made without seeking further approval from members.

The committee is committed to ongoing dialogue with key stakeholders, as outlined in the section below.

How did members vote on the 2011/12 directors' remuneration report?

The chart shows member voting on the 2011/12 directors' remuneration report at the 2012 AGM.



How does the committee engage with stakeholders?

During 2012/13 there was a comprehensive review of how the committee should engage with members and other stakeholders including the ORR and funders, the Department for Transport and Transport for Scotland. Following this review there has been significant ongoing engagement with all key stakeholders. This approach reflects the committee's commitment to transparent dialogue on executive remuneration issues in the context of the safety and business performance and strategic priorities.

During the year representatives from the committee and the company have attended three members workshops to discuss the principles behind executive remuneration in Network Rail, the design of long-term incentive arrangements, the performance measures used and outcome of incentive plans that have vested. In addition a new sub-group of members, the people engagement group, met twice during the year. This group discusses a range of people-related issues in greater depth including executive remuneration.

There are regular discussions with the ORR in relation to incentives for executive directors to ensure that the incentive plans, both short and long term, meet the licensing condition.

In addition there are meetings during the year with our principal funders to discuss incentive arrangements.

What were the key remuneration committee agenda items during the year?

April 2012	• Executive pay • Incentive schemes • BIS consultation
May 2012	• 2011/12 annual incentive plan out-turn proposals • 2009-12 long-term incentive plan out-turn proposals
June 2012	• External advisers to the committee
September 2012	• Summary of the remuneration cycle • Role of committee advisers • 2012/13 annual incentive plan • 2012-15 long-term incentive plan design
November 2012	• Benchmarking approach and data for executive directors • 2012/13 annual incentive plan – updates from discussions with the ORR • 2012-15 long-term incentive plan – initial proposals for discussion • CP5 incentives – potential principles • BIS proposals and potential impact
January 2013	• Principles for framework of CP5 incentives • Presentation on financial value added (FVA) and how it is used in incentives • 2012-15 long-term incentive plan – proposals
February 2013	• 2012-15 long-term incentive plan final documentation • Engagement/approval plan for the AGM
March 2013	Approvals process and timings in relation to 2013 AGM

Further information in relation to the remuneration committee:

Membership of the remuneration committee	Graham Eccles – chair from 19 June 2012 Mike Firth Michael O'Higgins (from 21 November 2012) Richard Parry-Jones
Terms of reference	The terms of reference for all board committees are at networkrail.co.uk
External advisers	In carrying out its responsibilities, the committee seeks independent external advice as necessary. For the first part of the year, Hewitt New Bridge Street provided advice in relation to executive remuneration. During the year the committee undertook a tendering process for advisers and appointed Deloitte LLP to provide independent advice on matters under consideration by the committee. The committee is comfortable that the Deloitte engagement partner and team provide objective and independent remuneration advice to the committee and do not have any connections with Network Rail that may impair their independence. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at www.remunerationconsultantsgroup.com
Internal advisers	• The group general counsel is secretary to the committee • The chief executive attends meetings at the invitation of the committee. He is not present when his own remuneration is being discussed • The committee is also supported by the director, human resources, head of reward and benefits and deputy company secretary.
Number of meetings	Eight meetings were held during the year.

What are the principles of the remuneration policy?

The principles of the remuneration policy are designed to be linked to the overall business strategy. The core principles are:

- **Alignment between performance and reward**. We believe that exceptional performance delivered for our stakeholders should be rewarded, and there should be no reward for failure. Network Rail needs to deliver performance to all of our stakeholders, including trains running on time, expanding the network, managing the assets of the network and delivering financial savings for taxpayers. Our philosophy is to have incentives that pay for delivering performance in the areas that matter to our stakeholders
- **Safety of the workforce, passengers and the general public remains the paramount consideration**. We believe that it is not appropriate to include safety as a specific performance measure. The executive directors already treat safety matters as the priority as they strive to continuously improve performance in this area. Nevertheless the remuneration committee retains a wide discretion to adjust any award downwards for poor safety performance, particularly in the case of a catastrophic accident for which Network Rail was found to be culpable
- **Attracting the calibre of individual that we need, while at the same time ensuring value for money to our funders**. Network Rail is a business of considerable size, scale and complexity. This type of business needs leaders of the highest calibre and it is crucial to the success of the railway that we can attract and retain such individuals. We also need to ensure value for money. Having incentives allows us to create a competitive remuneration package, but one that gives value for money by only paying out for delivery of exceptional performance
- Our policies are **consistent with best practice in commercial organisations**. Network Rail as a business is run in a way that is consistent with the best practice for commercial organisations, irrespective of their funding model. Our licence agreement requires us to include incentives in the remuneration package and to consider best practice
- **Strategic alignment**. Our longer term business strategy for CP5 in 2014 and beyond has recently been outlined in the strategic business plan documents. During the 2012/13 financial year, the committee has been reviewing the remuneration arrangements for executive directors in the context of the overall business objectives. The structure of the annual incentive arrangements (AIP) and the longer term incentives (LTIP) reflect what is important to the business in terms of performance.

The remuneration framework must also satisfy the requirements of the licence agreement.

How does the remuneration for executive directors compare with arrangements for other employees?

When making decisions on remuneration for executive directors, the committee takes into account pay and conditions across the rest of the company. The principles behind the remuneration packages for executive directors are consistent with those applied to other employees:

- **Base pay** increases for executive directors take into account the average managerial salary increase, which was three per cent in 2012. Base salary increase for front line employees was 3.5 per cent effective from 1 January 2013
- Employees across the company are eligible to participate in an **annual bonus**. The corporate element of the bonus scheme has the same measures and targets for all participants, including executive directors, incentivising the achievement of shared, company-wide objectives for all
- There are three occupational **pension schemes**. All employees are eligible to participate on the same terms.

How is pay positioned against the market?

Securing the right talent to lead Network Rail is hugely important for the rail industry and its stakeholders. Network Rail is a business of significant scale and complexity and it requires individuals of the highest calibre to successfully lead such a business.

Remuneration packages need to be competitive and credible when trying to compete for top talent.

Market data is one point of reference for the committee when making judgements on the right level of executive pay. During the year the committee, with members, reviewed where Network Rail is positioned against external market data.

As occurs for any role within Network Rail, the objective is to consider market data which is relevant to the role in question, reflects the skills and experience required, and the nature of the organisation. The committee takes this approach for the executive directors.

Network Rail is a commercial business competing in the same talent markets as other commercial businesses. The committee therefore considers market data from large commercial organisations of a similar scale and which face similar operational challenges. However, the committee also recognises that a key difference between Network Rail and other commercial organisations is the absence of equity pressures due to the nature of its funding.

Network Rail is also publicly funded and has a strong element of public interest including safety responsibilities. The committee therefore considered also market data from a number of public or quasi public organisations.

During the year the committee undertook an in depth review of market data and positioning. The committee's conclusion, which was shared with members, was that Network Rail is, and should be, positioned appropriately between these two markets, reflecting the nature of Network Rail's operations and public characteristics.

What are the remuneration policy details for 2013/14?

This section sets out the remuneration policy for executive directors in 2013/14.

Summary of remuneration policy

<table>
<tr><th>Remuneration element</th><th>Purpose and link to strategy and performance measures</th><th>Details and performance measures</th><th>Quantum</th><th>Changes in the year</th></tr>
<tr><td>Base salary</td><td>To deliver the strategy, reflect the calibre of individual needed for the role</td><td>Reviewed annually on 1 July

Salary awards for executive directors take into account the average managerial salary increase</td><td>Salary increases for executive directors take into account a range of factors including the average managerial salary increases</td><td>A three per cent increase on 1 July 2012, in line with other management pay awards

Details of salary levels for executive directors are set out in the base salary section below</td></tr>
<tr><td>Annual incentive plan (AIP)</td><td>Alignment of short-term business performance and reward while ensuring value for money to funders

Corporate measures are aligned through the organisation and apply to executive directors and other employees

In accordance with the principles outlined by the ORR

Satisfies requirements of licence agreement</td><td>For 2012/13 and 2013/14 there are seven performance measures which have been selected to give a balanced measurement of business performance

<table><tr><th>Measure</th><th>Weighting</th></tr><tr><td>Passenger performance</td><td>27%</td></tr><tr><td>Freight performance</td><td>3%</td></tr><tr><td>Asset stewardship indicator</td><td>20%</td></tr><tr><td>Cost efficiency</td><td>10%</td></tr><tr><td>Passenger satisfaction</td><td>10%</td></tr><tr><td>Customer satisfaction</td><td>10%</td></tr><tr><td>Progress on infrastructure projects</td><td>10%</td></tr></table>
For each measure, stretching targets are set at the start of the year and performance is measured at the end of the performance year and, if appropriate, the committee has discretion to adjust based on a range of factors including the ORR's annual assessment of Network Rail's performance, and reports from the audit, risk and safety, health and environment committees.</td><td>Scale of 0 per cent-60 per cent of salary at maximum. Payment of 30 per cent of salary for performance above expectations</td><td>Freight performance was added in 2012/13 as a separate measure

Previously part of overall passenger performance</td></tr>
</table>

Summary of remuneration policy

<table>
<tr><th>Remuneration element</th><th>Purpose and link to strategy and performance measures</th><th>Details and performance measures</th><th>Quantum</th><th>Changes in the year</th></tr>
<tr><td>Long-term incentive plan (LTIP)</td><td>Alignment of the outperformance key long-term performance measures for our stakeholders with reward for executives

In accordance with the principles outlined by the ORR

Designed on the basis of best practice principles</td><td>The 2012-15 LTIP is subject to performance measured over a three-year period up to 31 March 2015

Three performance measures:<table><tr><th>Measure</th><th>Weighting</th></tr><tr><td>Delivering incremental savings (FVA)</td><td>50 %</td></tr><tr><td>Train performance (PPM)</td><td>25 %</td></tr><tr><td>Capital projects milestones</td><td>25 %</td></tr></table>
Clawback provision where the committee can reduce or cancel an award in certain circumstances

Underpins as a safeguard for a balanced approach to measuring performance</td><td>Maximum annual award of 100 per cent of salary over the life of the LTIP</td><td>New policy proposed for the period 2012-15 and subject to member approval at the 2013 AGM</td></tr>
<tr><td>Benefits</td><td>To help recruit and retain the right calibre of people</td><td>In line with other senior management roles, executive directors are entitled to a car allowance, private healthcare and bi-annual health assessments

All employees are eligible for discounted rail travel and life insurance</td><td>Market competitive</td><td>No changes</td></tr>
<tr><td>Pension</td><td>To help recruit and retain the right calibre of people</td><td>There are three occupational pension schemes. All employees are eligible to participate on the same terms. Two are defined benefit, the other is a defined contribution scheme.

Executives participate subject to a notional pensions earnings cap and receive a cash allowance or additional company contribution above the cap</td><td>Accrual rate of 1/60th in the defined benefit schemes

Under the defined contribution plan the company matches the employee contribution, plus three per cent up to a maximum company contribution of seven per cent of base salary</td><td>For members of the retirement pension scheme two changes were made to make it more sustainable and affordable for both members and the Company:
1. Pensionable pay is now capped by RPI plus 0.5 per cent
2. A new set of terms were introduced for those joining the scheme on or after 1 July 2012 and existing members who chose to switch</td></tr>
</table>

In 2012/13, performance related retention payments were awarded to three executive directors (see page 89). These awards were specific to the particular circumstances at the time of award and the use of retention payments does not form part of the overall remuneration policy looking forward.

The individual components are discussed in more detail in the following sections.

Fixed remuneration 2013/14
Fixed pay comprises salary, benefits and pension and is set at an appropriate level to attract individuals with the calibre and experience needed to lead a business of the scale and complexity of Network Rail.

Base salaries 2013/14
The base salaries of the executive directors are reviewed annually on 1 July. Following the 2013 review, it was determined that salaries will be increased by 2.5 per cent. With effect from 1 July 2013 the base salaries will be as follows:

	1 July 2012	1 July 2013
David Higgins	£577,000	£591,425
Patrick Butcher	£394,000	£403,850
Robin Gisby	£371,000	£380,275
Simon Kirby	£371,000	£380,275
Paul Plummer	£348,000	£356,700

Benefits 2013/14
The benefits for executive directors are aligned to other senior managers and include private medical cover, car allowance, life insurance and travel subsidy. There are no changes to benefits for executive directors in 2013/14.

Pension 2013/14
Executive directors participate in one of our three occupational pension schemes: the Network Rail section of the Railway Pension Scheme (RPS), Network Rail CARE Pension Scheme (CARE) and Network Rail Defined Contribution Pension Scheme (NRDC). Benefit accrues at a rate of one-sixtieth of capped final pensionable pay (RPS) or capped average pensionable pay (CARE) for each year of membership. NRDC provides benefits on a money purchase basis. Executive directors contribute at the same rate as other members of the respective scheme. In addition, some directors are entitled to either additional money purchase pension benefits that are provided through the NRDC scheme or an additional cash allowance as detailed in the table on page 91.

Following the latest actuarial valuation, changes were made to the RPS to make it more sustainable and affordable both for members and the company. Firstly, a new set of terms, known as RPS65, was introduced for those joining the scheme on or after 1 July 2012 and existing members who chose to switch on that date. Secondly, for all members pensionable salaries are now capped by the annual increase in the RPI plus 0.5 per cent, including those remaining on existing terms, now known as RPS60.

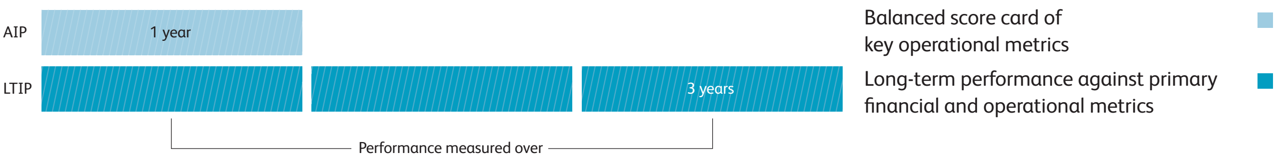
In normal circumstances, the earliest age at which members are entitled to receive their defined benefit pension without actuarial reduction is age 60 for those on RPS60 terms or age 65 for RPS65 and CARE scheme members. However, the directors can retire early on the same terms and conditions that apply to other members of the respective scheme from the age of 55 or in some cases age 50 in RPS60. Directors who are either in the CARE scheme or on RPS65 terms may retire early from age 55 and the pension is then subject to cost neutral early retirement terms. In the NRDC scheme,

Directors can retire early from age 55 on the same terms and conditions that apply to other NRDC members. As NRDC benefits are provided on a money purchase basis, actuarial reduction factors are not applicable.

Performance-related remuneration 2013/14
Incentives are an important feature of Network Rail's remuneration, and indeed are a licence condition. They allow the business to target, reward and recognise exceptional performance for stakeholders. We therefore propose to continue to use incentive arrangements which measure performance over both short and long term.

The performance related element the annual incentive plan (AIP) and the long-term incentive plan (LTIP), ensure an appropriate balance between rewarding annual operational performance and long-term performance for stakeholders.

Performance related remuneration



For both the AIP and the LTIP, any payout requires the delivery of performance for stakeholders against stretching targets set at the time the awards are made (and assessed by the committee after the relevant performance period has ended). As shown below, the performance measures reflect the areas which Network Rail stakeholders are interested in, such as financial performance, train performance or expansion of capacity. The AIP and LTIP are designed to be simple and transparent, and drawing on key features of best practice in the listed environment.

The AIP remains unchanged for 2013/14.

A new LTIP is being proposed for the performance period 2012-15. This has been the subject of consultation with members and will be put to members and other stakeholders for formal approval at the AGM in 2013.

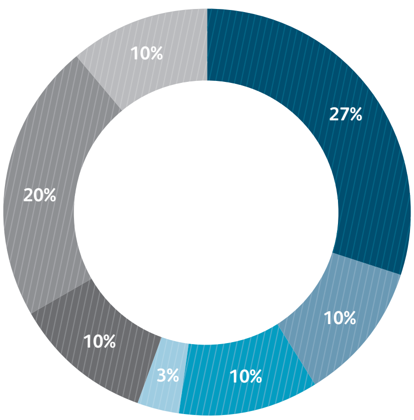
Annual incentive plan 2013/14
The AIP provides an opportunity to reward performance against a balanced score card of seven operational measures in areas that are key to our stakeholders and the success of Network Rail.

Any payment due is based on performance against stretching targets in each area. The measures, weightings and targets for 2013/14 are described opposite.

The ORR has confirmed that the framework satisfies the licence agreement.

There were no changes for 2013/14 in respect of the structure, measures, proportion of measures and maximum bonus that can be achieved for executive directors.

Annual incentive plan



Delivering for our passengers

Passenger performance
measures the percentage of trains arriving on time

Passenger satisfaction
is measured through the National Passenger Survey

Serving our customers

Customer satisfaction
is an assessment of how well Network Rail engages with its key customers

Freight performance
measures the percentage of freight trains arriving on time

Investing in the railway

Asset stewardship
indicator measures the quality of Network Rail's asset stewardship based on asset condition, reliability and performance

Progress on infrastructure projects
is measured through reports against achievement of key milestones during the year

Value through cost savings

Cost efficiency
the annual cost of Network Rail, normalised by capacity provided and adjusted by renewals activity and compared to base year

	Weighting	Start of taper	2013-14 target	Maximum target
Public performance measure	27 %	90.9 %	92.0 %	92.5 %
Freight performance measure	3 %	74.1 %	74.9 %	77.0 %
Asset stewardship	20 %	0.093	0.111	0.123
Cost efficiency	20 %	17.0 %	21.0 %	23.0 %
Passenger satisfaction	10 %	84.3 %	84.3 %	84.6 %
Customer satisfaction	10 %	Discretionary		
Investment milestones	10 %	Discretionary		

The maximum opportunity will continue to be 60 per cent of salary, requiring exceptional levels of performance under each measure. A payment of 30 per cent of salary would be payable for achieving performance above expectations. This maximum opportunity was reduced in 2012/13 from the previous maximum of 100 per cent.

The committee has an overriding discretion to adjust payments to take account of overall business performance, including safety performance. In the event of a catastrophic accident for which Network Rail was culpable no annual bonus would be payable to any executive director.

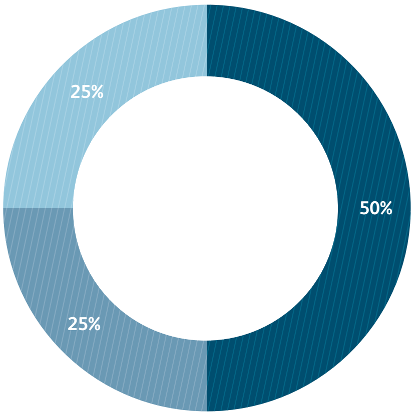
Long-term incentive plan 2012-15
The LTIP provides alignment between long-term performance for stakeholders and reward for management. There is no reward for failure.

The LTIP will be based on performance in the three years to 31 March 2015. It has been developed by the committee incorporating features of best practice drawn from incentive design in the listed environment and is subject to consultation with members. The plan is subject to formal approval by members at the 2013 AGM.

The LTIP is required under the terms of the licence agreement. The ORR has confirmed the LTIP meets the requirements of the licence agreement.

Payouts under the LTIP will be subject to performance against targets in three key areas, all of which have been identified as key areas for stakeholders. This is a simple, well-balanced framework, fully aligned with stakeholders.

Long-term incentive plan



Financial value add (FVA)
Reflects the extent to which Network Rail outperforms the ORR's income and expenditure determination and is a key measure of the savings delivered for taxpayers

Passenger performance (PPM)
Measures the extent to which trains arrive on time and is a key measure for users of the railway network

Projects
This measures the delivery of capital and expansion projects ensuring the ability to operate effectively in the future

Payouts are scaled to performance, using the following stretching targets for each measure:

	% of maximum	Cumulative FVA 50 % of award	PPM moving annual average 25 % of award	Project milestones 25 % of award
Performance above expectations	25 %	£75m	92.5 %	Delivery above expectations
Exceptional performance	100 %	£450m or above	93.0 % or above	Exceptional delivery

As the plan spans two control periods, the targets will be subject to verification once the determination has been published and targets for the period in CP5 that this plan covers have been finalised.

The committee's policy is to make awards under the LTIP on an annual basis, in line with practice in the commercial environment (where 'rolling' awards of this kind are encouraged by best practice principles). The maximum annual award for executive directors under the 2012-15 LTIP is 100 per cent of salary.

This LTIP is based on both operational and financial performance. Both are important to Network Rail and our stakeholders. Therefore the LTIP will use two underpins and the committee will retain discretion to made a suitable downward adjustment to vesting levels if the underpins are not satisfied. This is to provide a safeguard such that performance in one area must not be achieved at the expense of the other.

Measure	Underpin
Operational measures (PPM and milestones)	Subject to a positive cumulative FVA over the period
Financial measure (FVA)	Subject to the committee's assessment that key regulatory outputs have been sufficiently delivered

Another new proposal is the introduction of a **clawback** provision in line with best practice in the listed environment. This will give the committee discretion to **reduce or cancel** an award at any time before vesting, if circumstances are considered appropriate. These include:

- Gross misconduct
- A material misstatement of the company's audited results
- An unacceptable level of safety performance. In the event of a catastrophic accident for which Network Rail was culpable, no LTIP would normally be payable to any Network Rail executive director
- A material failure of risk management
- A failure to comply with obligations set out in applicable contractual agreements
- Serious reputational damage to the company as a result of the participant's misconduct.

Leavers will generally not be eligible for a payment unless they leave by reason of disability, injury, ill health, death in service, redundancy or retirement. In these circumstances the committee has the discretion to measure performance over a shorter period and make payments where considered appropriate.

What are the terms of the service agreements for executive directors?

Current service agreements:

Name	Effective date of agreement
David Higgins*	1 February 2011
Patrick Butcher	20 April 2009
Robin Gisby**	1 October 2008
Simon Kirby**	1 October 2008
Paul Plummer**	1 October 2008

* Previously held the position of non-executive director from 1 April 2010 to 31 January 2011.

** Previously held other senior executive positions under an earlier employment contract.

The key features are:

Notice period	Six months from the company, other than Simon Kirby who has a notice period from the company of 12 months Six months from the executive director
Termination provisions	Each agreement contains an express provision requiring the departing executive director to mitigate their loss. Network Rail would 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 The chief executive's agreement contains provisions for termination of his appointment without compensation upon the occurrence of certain significant financial failures of the group unless a majority board of the company and the Department for Transport (in its role as provider of credit facilities) decide that this appointment should not be terminated

What was the director's remuneration in 2012/13?

This section provides details of remuneration in respect of 2012/13 and, as described below, in respect of previous years.

Summary table of 2012/13 decisions made

Base salary	For salary increases with effect from 1 July 2012, a **three per cent** increase in line with the pot for managerial pay awards
Annual bonus	Achievement of **28.62 per cent** of bonus potential, which is **17.17 per cent of salary**
LTIP (2009-12)	No LTIP was awarded in 2010 and therefore there was no LTIP vesting in respect of performance in 2012/13 However, as disclosed last year, the committee undertook to review performance of the 2009 LTIP which vested in respect of performance in the three years to March 2012. Following consultation with members, the following was agreed: Achievement in excess of the maximum for the performance condition. However, the committee decided to scale back payment resulting in an **80 per cent** vesting figure, which is subject to final verification by the ORR To reflect this, payments are being **phased** with **48 per cent of salary** being paid in 2012/13 and any balance that may be due to be paid out in 2014

Annual incentive plan 2012/13

As disclosed in last year's remuneration report, the maximum award in 2012/13 was 60 per cent of salary, reduced from 100 per cent in previous years.

The bonus structure and achievement for 2012/13 was:

	Below threshold – nil vesting	Threshold performance	Target	Maximum	**Weighting**	**Payout percentage**
Value through cost savings						
Cost efficiency which is the annual cost of Network Rail, normalised by capacity provided and adjusted by renewals activity and compared to base year		16.8 % **17%**	17.6 %	22.3 %	**20%**	**2.5%**
Investing in the railway						
Asset stewardship indicator measures the quality of Network Rail's asset stewardship based on asset condition, reliability and performance		0.091 % **0.093%**	0.107 %	0.123 %	**20%**	**1.3%**
Progress on infrastructure projects is measured through reports against achievement of key milestones for the year		✓	✓✓✓ **✓✓✓✓**	✓✓✓✓✓	**10%**	**8%**
Delivering for our passengers						
Passenger performance measures the percentage of trains arriving on time	**90.9%**	92 %	92.2 %	92.5 %	**27%**	**0%**
Passenger satisfaction with rail travel is measured through the National Passenger Survey		83.7 %	84 %	**84.3%**	**10%**	**10%**
Serving our customers						
Customer satisfaction is an assessment of how well Network Rail engages with its key customers		✓	✓✓✓	**✓✓✓✓✓**	**10%**	**10%**
Freight performance measures the percentage of freight trains arriving on time	**74.1%**	75.8 %	76.4 %	77 %	**3%**	**0%**
					Safety – discretionary reduction to outcome	**0.9x**
					Total vesting	**28.6% of max**

Stretching performance targets were set at the beginning of the year in the context of the regulatory targets for CP4.

The committee took account of a range of factors in deciding whether to adjust the overall payment downwards or upwards. These factors included the ORR's annual assessment of Network Rail's performance and a report from the safety, health and environment committees.

Performance against measures:

- **Train performance**, both freight and passenger was below the threshold for payment this year and as a result, no payment was made in relation to these measures which account for 30 per cent of overall bonus
- **Asset stewardship** indicator performance was above threshold and therefore triggered a payment
- **Cost efficiency** during the year was above the threshold and a payment was triggered
- **Passenger satisfaction** is measured through the National Passenger Survey, commissioned by Passenger Focus, which provides a network-wide picture of passenger's satisfaction with rail travel. Passenger satisfaction during the year was at a record high of 85 per cent, triggering a maximum payment for this measure. This recognised the continued improvement of punctuality, which is the biggest driver of passenger satisfaction. It also recognised significant improvements in a number of Network Rail managed stations, notably King's Cross and Waterloo, where recent investment is resulting in a much improved passenger experience
- **Customer satisfaction** is an assessment of how well Network Rail engages with its key customers, principally passenger and freight operating companies. It is measured by the Customer Satisfaction Survey, carried out by a third party, and takes into account the customer satisfaction achieved in each of the Network Rail routes. All routes had an increase in scores in 2012 compared to 2011, with six having met their overall maximum customer satisfaction target
- **Progress on infrastructure projects** is measured through reports against achievement of key milestones for the year. During 201/13 there were almost 2,000 projects aimed at improving and expanding the railway
- The ORR recognised successes during the year including an increase in both passenger and freight journeys, the national passenger satisfaction level being at the highest level, and customer/train operator satisfaction with Network Rail increasing by 25 per cent from the previous year. The ORR also acknowledged that Network Rail coped well with the transport challenges of the Olympics and cited the evidence of recent European rail study which concluded that the UK rail network is the most improved in Europe over the last two control periods. In addition they commented on the further progress in relation to the safety culture through the development of the health and safety strategy as well as being on course to deliver a substantial programme of enhancements. However, the ORR also felt that some areas of performance during 2012/13 fell short of what is expected or were not consistent enough such as punctuality and passenger performance in England and Wales and the degree of pro-active maintenance and performance against the asset stewardship indicator
- The committee took into account all of the above factors as well as a report from the safety, health and environment committee in determining the overall level of payout for the year. In addition it considered the success of transport for the Olympics, the successful relocation of the corporate offices to Milton Keynes during the year and workforce safety issues. Taking all of these into account the committee decided to apply discretion and reduce the overall payment by 10 per cent for executive directors to 28.62 per cent of maximum, which equates to 17.17 per cent of salary for executive directors.

LTIP 2009-12

This LTIP was awarded in 2009 to the executive directors at the time. It was approved by members at the 2009 AGM.

As disclosed last year, this LTIP was previously intended to be rolled into the Gainshare Plan. When this plan did not proceed, the committee was required to consider performance against the targets and determine payouts (following member consultation).

The target set in 2009 was based on aggregate FVA in the three-year period to 31 March 2012, which was designed to reward participants for value added savings delivered for taxpayers. The committee was also required to consider overall business performance.

The overall business performance during the three-year period was strong.

- A reduction in the cost of running the railway by £1.6bn against 2008/09 levels
- £698m reported FVA
- Passenger journeys rose by 13 per cent
- Passengers arriving on time rose by 13 per cent
- Freight traffic rose by 10 per cent
- Over 6,000 projects worth £12bn were completed, including landmark projects such as King's Cross
- The UK has been recognised as having made the most progress in improving its railway infrastructure of any country in Europe (European Commission report 2013)
- £152m has already been returned to the Government.

This achievement is significantly above the £300m target for maximum LTIP payout.

Although the overall business performance was strong in the period the committee exercised discretion to reduce the payout in two areas, train performance and safety. This reduced the payout from 100 per cent to 80 per cent.

The aggregate LTIP payout to the executive directors represents less than 0.2 per cent of the achieved FVA figure.

The committee was mindful that the final FVA figure for the performance period could not be verified by the ORR until the end of CP4. It therefore made the decision to make the payments in two phases. The first payment was made in 2013, during the 2012/13 tax year.

The second payment, where any to be due, would be made is in 2014 to provide a mechanism for any adjustments which may be required following final ORR verification of FVA.

Members were informed of the first payment and there will be further engagement with Members once the ORR have given their final view on FVA for the 2009-12 performance period at the end of CP4.

Summary of 2009-12 LTIP terms

Performance period	Three years, 31 March 2009 – 2012
Performance targets	FVA achievement £(300)m for 0 per cent payment £300m for maximum payment
Remuneration Committee discretion	The committee considered the overall business performance during the period and concluded that it was strong The committee also took into account the views of the audit committee and the safety, health and environment committee in considering performance The committee exercised discretion to reduce award by **20 per cent** in total 1. A reduction of 10 per cent for safety-related matters including workforce safety, level crossing safety and enforcement notices – taking into account the views of the safety, health and environment committee. 2. A reduction of 10 per cent to reflect train performance in the period. Although significant improvements were achieved, train performance targets were not met This resulted in an overall payout of 80 per cent
Achievement against targets	£698m reported FVA

Retention awards
As disclosed last year, performance-related retention awards were made to three executive directors where the committee had concerns about retention.

A decision was made to make a one-off award to Robin Gisby, Patrick Butcher and Simon Kirby to reflect both the retention risks and the increased responsibilities for these three directors as a result of restructuring.

These one-off awards were approved by members at the 2012 AGM and will payout in 2014 subject to individual performance assessment.

Other information

What are the terms of non-executive directors' appointments?

Provision	Policy
Period of appointment	Three-year term which can be extended by mutual consent
Termination without compensation	By the director or the company giving the other six months' written notice
Fees	As described below
Benefits, pension and incentives	Non-executive directors do not receive benefits or participate in incentives from the company or the Network Rail group Graham Eccles receives a pension from the industry-wide Railway Pension Scheme, but this pension is not associated with Network Rail and is from his previous employment within the rail industry
Expenses	Reimbursement of expenses reasonably and properly incurred in attending meetings of the board or otherwise in the performance and discharge of their duties and responsibilities
Time commitment	Varying dependent on board and board committee duties but in general terms estimated to comprise as a minimum per annum*: • Eight board meetings • Typically six or more board committee meetings (depends on committee membership)** • Three stakeholder relationship events • One board strategy day** • One AGM • Two members' workshops/meetings** • Three non-executive director only meetings

* Excluding induction phase.
** Each of these are anticipated to require preparation time of up to one day per meeting.

What is the policy on non-executive directors' fees?

Fees are reviewed bi-annually and, with the exception of the fee for the chairman (which is determined by the committee), are set by the executive directors to attract individuals with the appropriate range of skills and experience. In determining the level of fees their duties and responsibilities are considered, together with the level of time commitment required in preparing for and attending meetings.

The fees were last reviewed in January 2011 and no increase in base fees or committee chair fees were awarded. The fees are currently under review and any change will be detailed in the 2014 remuneration report.

Annual fees for non-executive directors as at 31 March 2013

			Committee chairmanship				
	Board membership £	Senior independent director £	Safety, health and environment £	Remuneration £	Policy and performance £	Audit and risk £	Treasury £
Malcolm Brinded	50,000						
Graham Eccles	50,000			10,000			
Mike Firth	50,000						6,000
Lawrie Haynes	50,000		10,000				
Janis Kong	50,000						
Keith Ludeman	50,000	9,000			10,000		
Michael O'Higgins	50,000						
Richard Parry-Jones	250,000						
Bridget Rosewell	50,000					10,000	

What is the policy on executive directors holding outside appointments?

The group is supportive of executive directors who wish to take on a non-executive directorship in order to broaden their experience and enhance their contribution to the company. Executive directors are normally required to seek approval from the committee to retain any fees they receive in respect of such appointments.

David Higgins is currently a non-executive director of Sirius Minerals plc and received fees of £25,000 during the year. He is also a non-executive director of the Rail Safety and Standards Board. Patrick Butcher is a member of the British Transport Policy Authority. No fees are received by them for these positions.

Performance graph

The company has no listed shares and therefore total shareholder return cannot be illustrated.

Audited section

The table below sets out the remuneration paid to directors in respect of the financial year to 31 March 2013.

	Base salary/fees £000		Benefits[7] £000		Pension allowance/ supplementary company pension contribution £000		Pension[9] £000		Incentives £000		Total £000	
	2012/13	2011/12	**2012/13**	2011/12	**2012/13**	2011/12	**2012/13**	2011/12	**2012/13**	2011/12	**2012/13**	2011/12
Executive directors												
David Higgins	573	560	15	15	166[8]	161	10	9	99	–	863	745
Patrick Butcher	391	382	15	15	110	108	43	45	236	–	795	550
Robin Gisby	368	360	15	15	104	102	69	40	222	–	778	517
Peter Henderson[1]	321	440	5	14	33	110	29	41	211	–	598	605
Simon Kirby	368	360	15	15	104	102	59	41	222	–	768	518
Paul Plummer	346	338	21	15	102	95	64	41	209	–	742	489
Non-executive directors												
Malcolm Brinded	50	50	–	–	–	–	–	–	–	–	50	50
Graham Eccles	57	50	–	–	–	–	–	–	–	–	57	50
Mike Firth	59	66	–	–	–	–	–	–	–	–	59	66
Lawrie Haynes	60	60	–	–	–	–	–	–	–	–	60	60
Rick Haythornthwaite[2]	76	250	–	–	–	–	–	–	–	–	76	250
Janis Kong	50	50	–	–	–	–	–	–	–	–	50	50
Keith Ludeman[3]	66	37	–	–	–	–	–	–	–	–	66	37
Michael O'Higgins[4]	18	–	–	–	–	–	–	–	–	–	18	–
Richard Parry-Jones[5]	174	1	–	–	–	–	–	–	–	–	174	1
Bridget Rosewell	60	60	–	–	–	–	–	–	–	–	60	60
Steve Russell[6]	23	69	–	–	–	–	–	–	–	–	23	69

1 Peter Henderson stepped down as the group asset management director at the AGM on 19 July 2012 and the figure above includes payment in lieu of notice.
2 Rick Haythornthwaite stepped down as the chairman at the AGM on 19 July 2012.
3 Keith Ludeman received a fee of £10,000 per annum as chairman of Network Rail Consulting, which is included in this figure.
4 Michael O'Higgins was appointed as a non-executive director on 21 November 2012.
5 Richard Parry-Jones was appointed as chairman at the AGM on 19 July 2012.
6 Steve Russell stepped down as the senior independent director at the AGM on 19 July 2012.
7 Benefits include car allowance, private medical cover, any travel subsidy and life insurance.
8 £22,000 relates to supplementary company pension contributions.
9 These figures are calculated in accordance with the proposed Department of Business, Innovation and Skills reporting regulations and exclude supplementary pension allowance/contributions, which are shown in the pension allowance/supplementary company pension contribution column. This information was not included in the 2011/12 annual report.

Long-term incentives

The table below sets out the interests of directors in relation to long-term incentives.

Name	Date of award	Performance period	Maximum value on the date of the award £000	Date of release	Value realised	Deferred amount[1]
David Higgins	2012*	2012-2015	577	2015	–	
Patrick Butcher	2009	2009-2012	350	05/04/13	168	112
	2012*	2012-2015	395	2015	–	–
Robin Gisby	2009	2009-2012	330	05/04/13	158	106
	2012*	2012-2015	371	2015	–	–
Peter Henderson	2009	2009-2012	440	19/07/12	211	141
Simon Kirby	2009	2009-2012	330	05/04/13	158	106
	2012*	2012-2015	371	2015	–	–
Paul Plummer	2009	2009-2012	310	05/04/13	149	99
	2012*	2012-2015	338	2015	–	–

1 Amount deferred is subject to the ORR final verification of FVA at the end of CP4. Any balance will be paid in 2014.

* Subject to member approval at the 2013 AGM.

All awards are made in cash as no shares can be issued. The value realised is included in the overall remuneration table on page 91.

The awards made in 2009 were subject to a performance condition in relation to achievement of FVA. Maximum payout was earned for FVA in excess of £300m. This figure was exceeded, but the remuneration committee reduced the award to an 80 per cent payout to reflect train performance and workforce safety issues during the performance period.

The award for the period 2012-15 is subject to three performance conditions, FVA (50 per cent of the award), train performance, PPM (25 per cent of the award) and capital projects delivery (25 per cent of the award). Full details are disclosed in the relevant section on pages 83 and 84.

Retention awards

The table below contains details of retention awards made which will be paid to executive directors and were approved by members.

	Year of award	Maximum value on the date of the award £000	Date of release
Patrick Butcher	2012	300	04/14
Robin Gisby	2012	300	04/14
Simon Kirby	2012	300	04/14

Pensions

Core pension benefits

The table on page 94 shows the accrued pension entitlement from the respective Network Rail pension scheme for each executive director of the company during the year ended 31 March 2013, together with the increases in those benefits during the year, calculated using the accrued benefit basis.

The increases in pension benefits during the year represent the amount of the extra annual pension entitlement earned resulting from additional length of service and/or changes in salary and/or additional contributions in respect of money purchase benefits.

The increase in accrued defined benefit during the year is shown in the table on page 94. Values are normally shown before (column A) and after (column B) the effect of inflation. All benefit values shown exclude any additional voluntary contributions made by the director.

The RPS operates a matching additional voluntary contribution facility, whereby voluntary pension contributions paid by scheme members are matched by equivalent payments from the company, up to certain limits. These matching arrangements were frozen for members of the Network Rail section of the RPS at the levels applicable on 3 November 2003 and this limit was applied to directors as to other scheme members (matching is not available for new RPS members with the exception of those transferring in from other RPS sections who may retain previous matching subject to certain conditions).

Additional pension benefits

Directors entitled to an additional pension allowance take this as a cash salary supplement, subject in some cases to an adjustment for National Insurance contributions; alternatively, directors may opt to have the gross payment made to the NRDC scheme as a pension contribution.

The contributions made during the year together, where appropriate, with contributions in respect of benefits accrued prior to the year under review are shown on page 91.

Core pension benefits

	Gross increase in accrued occupational pension £ (A)	Increase in accrued occupational pension net of inflation £ (B)	Total accrued occupational pension at 31 March 2013 £ (C)	Transfer value of accrued occupational pension at 31 March 2012 £ (D)	Transfer value of accrued occupational pension at 31 March 2013 £ (E)	Total change in transfer value during period £ (F)	Value of net increase in accrual over period £ (G)
David Higgins	–	–	–	41,528	55,173	13,645	8,172
Patrick Butcher	2,280	2,107	8,962	78,864	113,522	16,833	24,806
Robin Gisby	4,270	3,546	37,173	532,794	650,202	50,169	105,546
Peter Henderson	1,923	1,472	22,404	380,863	414,043	23,201	29,173
Simon Kirby	3,428	3,012	22,335	170,664	209,397	16,376	26,871
Paul Plummer	3,816	3,258	29,174	225,639	269,419	18,229	31,918

Notes

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 As in prior years figures in (B) showing inflation adjusted values reflecting the year to 30 September. The inflation adjustment is based on the revaluation method in accordance with the trust deed and rules of each pension scheme. The RPS is subject to increases based on September CPI and therefore a revaluation rate of 2.2 per cent was applied in respect of members of that scheme. The CARE scheme reflects revaluation based on September RPI and therefore a rate of 2.6 per cent was applied in respect of that scheme member.
3 Transfer values as at 31 March 2012 (D) and 31 March 2013 (E) have been calculated in accordance with 'The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008'.
4 The change in the transfer value (F) includes the effects of fluctuations in the transfer value due to factors beyond the control of the company and directors, such as stock market movements. It is calculated after deducting the director's contribution.
5 The value of net increase (G) represents the incremental value to the director of their service during the year, calculated on the assumption that service terminated at the year end. It is based on the accrued pension increase (B) after deducting the director's contribution.
6 The NRDC scheme member does not have an accrued pension as this only applies to defined benefit schemes and therefore only the employer pension contribution is shown (G) based on seven per cent of pensionable salary up to the notional earnings cap (£137,400 for all four weekly pay periods).
7 The company operates a SMART arrangement whereby, for participating employees, the employee member's normal contributions are paid by the company and the employee member's pensionable pay is reduced accordingly. For the purposes of these disclosures any SMART contributions have been treated as employee member contributions on a notional basis.

Corporate governance statements

This report has been prepared in accordance with the Directors' Remuneration Regulations 2008, UK Corporate Governance Code and the Companies Act 2006.

The annual bonus and the long-term incentive plan combined meet the network licence condition to have appropriate performance-related pay schemes in place.

Graham Eccles

Graham Eccles
Chairman,
Remuneration committee
5 June 2013

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in pages 48 to 50 confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group and company
- the directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditors

Pursuant to the Companies Act 2006 Section 418(2), each of the directors in office at the date of this report confirms that, so far as he or she is aware, there is no relevant audit information of which the company's independent auditors are unaware and that he or she has taken all reasonable steps in order to make himself or herself aware of any relevant audit information and to establish that the company's independent auditors are aware of that information.

Pages 1 to 95 (together with the sections of the annual report incorporated by reference) constitute the directors' report and business review.

On behalf of the board of the company

Suzanne Wise
Group general counsel and company secretary
5 June 2013

Independent auditors' report
to the members of Network Rail Limited

We have audited the group and parent company financial statements (the 'financial statements') of Network Rail Limited for the year ended 31 March 2013 which comprise the group income statement, the group statement of comprehensive income, the group and parent company statement of changes in equity, the group and parent company balance sheets, the group and parent company statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 95, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's profit and group's and parent company's cash flows for the year then ended
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

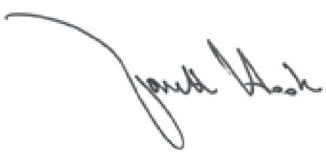
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

The directors have requested, (because the company applies Listing Rules 9.8.6R 3, 5 and 6 of the Financial Services Authority as if it were a listed company), that we review the parts of the corporate governance report relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review by the Listing Rules of the Financial Services Authority and that we review the directors' statement, set out on page 95, in relation to going concern. We have nothing to report in respect of these reviews.

Other matter

At the request of the directors, we have also audited the part of the directors' remuneration report that is described as having been audited. In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.



Jonathan Hook
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

London
5 June 2013

Income statement

for the year ended 31 March 2013

	Notes	Results pre debt and derivative revaluations 2013 Group £m	Debt and derivative revaluations (Note 8) 2013 Group £m	2013 Group £m	2012 Group £m
Revenue	3	**6,197**	**–**	**6,197**	6,004
Net operating costs	4	**(3,980)**	**–**	**(3,980)**	(3,657)
Operating profit		**2,217**	**–**	**2,217**	2,347
Property revaluation movements and profits on disposal		**(3)**	**–**	**(3)**	19
Total profits from operations	5	**2,214**	**–**	**2,214**	2,366
Investment revenue	7	**19**	**–**	**19**	45
Other gains and losses	8	**–**	**(43)**	**(43)**	(567)
Finance costs	9	**(1,415)**	**–**	**(1,415)**	(1,369)
Profit before tax		**818**	**(43)**	**775**	475
Tax	10	**(86)**	**10**	**(76)**	286
Profit for the year		**732**	**(33)**	**699**	761

Under section 408 of the Companies Act 2006 the group has elected to take the exemption with regard to disclosing the company income statement. The company's profit after tax for the year was £nil (2012: £nil).

Statement of comprehensive income

for the year ended 31 March 2013

	Notes	**2013 Group £m**	2012 Group £m
Profit for the year		**699**	761
(Loss)/gain on revaluation of the railway network	12	**(352)**	313
Gains/(loss) on movement in fair value of hedging derivatives		**71**	(93)
Reclassification of balances in hedging reserve to the income statement		**18**	67
		89	(26)
Actuarial loss on defined benefit pension schemes	27	**(578)**	(245)
Tax relating to components of other comprehensive income	22	**238**	29
Other comprehensive (expense)/income for the year		**(603)**	71
Total comprehensive income for the year		**96**	832

Statement of changes in equity

for the year ended 31 March 2013

Group	Revaluation reserve £m	Other reserve* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2011	**2,957**	**249**	**(165)**	**4,044**	**7,085**
Profit for the year	–	–	–	761	761
Other comprehensive income					
Impact of change in tax rate	107	–	(49)	(12)	46
Revaluation of the railway network	313	–	–	–	313
Transfer of deemed cost depreciation from revaluation reserve	(235)	–	–	235	–
Increase in deferred tax liability on the railway network	(19)	–	–	(56)	(75)
Actuarial loss on defined benefit pension schemes	–	–	–	(245)	(245)
Deferred tax on actuarial loss	–	–	–	59	59
Decrease in fair value of hedging derivatives	–	–	(93)	–	(93)
Deferred tax on all hedging reserve movements/retained earnings	–	–	(1)	–	(1)
Reclassification of balances in hedging reserve to the income statement	–	–	67	–	67
Total comprehensive income	**166**	**–**	**(76)**	**742**	**832**
Balance at 31 March 2012	**3,123**	**249**	**(241)**	**4,786**	**7,917**
Profit for the year	–	–	–	699	699
Other comprehensive income					
Impact of change in tax rate	55	–	(10)	(6)	39
Revaluation of the railway network	(352)	–	–	–	(352)
Transfer of deemed cost depreciation from revaluation reserve	(27)	–	–	27	–
Decrease in deferred tax liability on the railway network	91			(6)	85
Actuarial loss on defined benefit pension schemes	–	–	–	(578)	(578)
Deferred tax on actuarial loss	–		–	140	140
Increase in fair value of hedging derivatives	–	–	71	–	71
Deferred tax on all hedging reserve movements/retained earnings	–	–	(26)	–	(26)
Reclassification of balances in hedging reserve to the income statement	–	–	18	–	18
Total comprehensive income	**(233)**	**–**	**53**	**276**	**96**
Balance at 31 March 2013	**2,890**	**249**	**(188)**	**5,062**	**8,013**

* Other reserves of £249m (2012: £249m) include the vesting reserve on privatisation.

Balance sheet

at 31 March 2013

	Notes	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Assets					
Non-current assets					
Intangible assets	11	**69**	70	**–**	–
Property, plant and equipment – the railway network	12	**46,411**	43,112	**–**	–
Investment property	13	**751**	878	**–**	–
Derivative financial instruments	20	**697**	672	**–**	–
Finance lease receivables	16	**3**	5	**–**	–
Interest in joint ventures	14	**12**	6	**–**	–
Total non-current financial assets		**712**	683	**–**	–
		47,943	44,743	**–**	–
Current assets					
Inventories	15	**157**	125	**–**	–
Finance lease receivables	16	**2**	1	**–**	–
Trade and other receivables	17	**776**	672	**–**	–
Current tax assets		**9**	8	**–**	–
Derivative financial instruments	20	**256**	1	**–**	–
Cash and cash equivalents		**3,506**	1,886	**–**	–
		4,706	2,693	**–**	–
Total assets		**52,649**	47,436	**–**	–
Current liabilities					
Trade and other payables	18	**(3,394)**	(2,704)	**–**	–
Borrowings	19	**(4,120)**	(1,157)	**–**	–
Derivative financial instruments	20	**(23)**	(411)	**–**	–
Provisions	21	**(8)**	(12)	**–**	–
Obligations under finance leases	23	**–**	(1)	**–**	–
		(7,545)	(4,285)	**–**	–
Net current liabilities		**(2,839)**	(1,592)	**–**	–
Non-current liabilities					
Borrowings	19	**(29,354)**	(27,929)	**–**	–
Derivative financial instruments	20	**(608)**	(797)	**–**	–
Other payables	18	**(2,953)**	(2,769)	**–**	–
Retirement benefit obligation	27	**(1,267)**	(661)	**–**	–
Deferred tax liabilities	22	**(2,909)**	(3,078)	**–**	–
		(37,091)	(35,234)	**–**	–
Total liabilities		**(44,636)**	(39,519)	**–**	–
Net assets		**8,013**	7,917	**–**	–
Equity					
Revaluation reserve		**2,890**	3,123	**–**	–
Other reserve		**249**	249	**–**	–
Hedging reserve		**(188)**	(241)	**–**	–
Retained earnings		**5,062**	4,786	**–**	–
Total equity		**8,013**	7,917	**–**	–

The financial statements on pages 98 to 136 were approved by the board of directors and authorised for issue on 5 June 2013.

They were signed on its behalf by:

David Higgins Director **Patrick Butcher** Director

Company registration number: 4402220

Statement of cash flows

for the year ended 31 March 2013

	Notes	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Cash flows from operating activities					
Cash generated from operations	24	**3,749**	3,662	**–**	–
Interest paid		**(1,038)**	(970)	**–**	–
Income tax paid		**(8)**	–	**–**	–
Net cash generated from operating activities		**2,703**	2,692	**–**	–
Investing activities					
Interest received		**20**	40	**–**	–
Purchases of property, plant and equipment		**(4,693)**	(4,521)	**–**	–
Proceeds on disposal of property		**39**	29	**–**	–
Capital grants received		**137**	400	**–**	–
Investment in joint ventures		**(6)**	(1)		
Capital element of finance lease receipts		**2**	1	**–**	–
Net cash used in investing activities		**(4,501)**	(4,052)	**–**	–
Financing activities					
Repayments of borrowings		**(1,203)**	(2,545)	**–**	–
Repayments of obligations under finance leases		**(1)**	(1)	**–**	–
New loans raised		**4,751**	5,489	**–**	–
Net collateral received from/(repaid to) counterparties		**323**	(78)	**–**	–
Cash flow on settlement of non-hedge accounted derivatives		**(452)**	(390)	**–**	–
Net cash generated from financing activities		**3,418**	2,475	**–**	–
Net increase in cash and cash equivalents		**1,620**	1,115	**–**	–
Cash and cash equivalents at beginning of the year		**1,886**	771	**–**	–
Cash and cash equivalents at end of the year		**3,506**	1,886	**–**	–

Notes to the financial statements

for the year ended 31 March 2013

1. General information

Network Rail Limited is a company incorporated and domiciled in Great Britain and registered in England and Wales under the Companies Act 2006.

The company registration number is 4402220.

The company's registered office is situated at Kings Place, 90 York Way, London N1 9AG.

The company's principal activities are detailed in the group strategic framework on page 10.

Network Rail is organised as a single operating segment for financial reporting purposes.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union, and therefore comply with Article 4 of the European Union International Accounting Standard regulation.
The financial statements have been prepared on the historical cost basis, except for the revaluation of the railway network to a value determined using an income approach, the revaluation of investment properties, the measurement of certain financial assets and liabilities at fair value through profit and loss (FVTPL) and the measurement of derivative financial instruments at fair value.

The principal accounting policies adopted by the directors are set out below. The policies have been consistently applied to the years presented.

Presentation of the income statement: exceptional debt and derivative revaluations

The income statement has been presented in a three-column format in order to allow users to appreciate the impact on the results for the year of gains and losses arising from the revaluation of debt and derivatives. See Note 8 for further information.

Adoption of new and revised standards

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not been adopted by the EU):

IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
IAS 19 (revised)	*Employee Benefits*
IAS 27	*Separate Financial Statements*
IAS 28	*Investments in Associates and Joint Ventures*
Amendments to IAS 1	*Presentation of Financial Statements*
Amendments to IAS 12	*Income Taxes*
Amendments to IAS 32	*Financial Instruments: Presentation*
Amendments to IFRS 7	*Financial Instruments: Disclosures*

The impact of IAS 19 *Employee Benefits* has been considered in Note 27.

The group has yet to assess the full impact of these accounting standards.

2. Significant accounting policies continued

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the group strategic framework and strategic themes on pages 10 and 11. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the group finance director's review on pages 18 to 25. In addition, Note 26 to the accounts includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk.

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers. As a consequence, the directors believe that the group is well placed to manage its business risks.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company. This includes special purpose financing companies which are not members of the Network Rail Group but are treated as subsidiaries in the consolidated accounts of Network Rail Limited. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue represents amounts derived from the management and provision of assets for use in the operation of the railway and property rental income net of value added tax. Amounts recognised take account of any performance penalties or bonuses in respect of the year.

Revenue also includes supplements to the access charges and bonuses receivable from, less penalties and rebates payable to, customers and stakeholders. Operating expenditure includes additional contract amounts and bonuses payable to, less penalties receivable from, suppliers and the Office of Rail Regulation.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Grants

Grants and other contributions received towards the cost of property, plant and equipment are included in trade and other payables as deferred income and released to the income statement over the estimated useful economic life of the railway network. Revenue grants earned for the management and provision of railway network assets are credited to the income statement in the period to which they relate.

Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

Rental income from operating leases and initial direct costs are recognised on a straight-line basis over the term of the relevant lease.

The group as lessee

Assets held under finance leases are recognised at their fair value as assets of the group or, if lower, at the present value of the minimum lease payments. Each is determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs (see page 105).

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the exchange rates prevailing at the balance sheet date. Foreign currency amounts are initially recorded at the exchange rates prevailing on the dates of the transactions. Gains and losses arising on retranslation are included in the income statement for the period and are classified as either operating or financing depending on the nature of the monetary item giving rise to them.

2. Significant accounting policies continued

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Operating profit

Operating profit is stated before investment income, finance costs, other gains and losses, and revaluation movements and profits on disposal of properties. A middle column has been presented to allow users to appreciate the impact of the revaluation of debt and derivatives on the results for the year. Not all hedging strategies qualify for hedge accounting and the directors believe that by separating gains and losses arising from applying the valuation requirements of IAS 39, the users of this financial information will better understand the underlying performance of the group.

Retirement benefit costs

Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

For the defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with full actuarial valuations being carried out at least every three years and updates to these valuations carried out in intervening years.

The group's share of the actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Tax

The tax expense represents the sum of the current tax payable and deferred tax. The group's current tax liability is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Current taxes are based on the taxable results of the group and calculated in accordance with tax rules in the United Kingdom.

Deferred tax is the tax expected to be payable or recoverable on the temporary differences that arise when tax authorities recognise and measure assets and liabilities with rules that differ from those of the consolidated accounts. Deferred taxes are calculated under the balance sheet liability method at the rate of tax expected to prevail, subject to the rate being enacted or substantively enacted by that date, when the temporary differences reverse. Deferred tax is not discounted.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised on all deductible temporary differences to the extent that it is probable that there will be taxable profits available against which the temporary timing differences can be utilised.

Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity. In this case the deferred tax is also accounted for within equity.

Property, plant and equipment – the railway network

The company has one class of property, plant and equipment, being the railway network. This is the integrated network that the company uses to deliver the operation, maintenance and renewal of Great Britain's national rail infrastructure.

Valuation methodology

The railway network is carried in the balance sheet at its fair value. As there is no active market in railway infrastructure assets, the company has derived the fair value of the railway network using an income approach. The income approach assesses the discounted future cash flows that are expected to be generated by the railway network, including an assessment of under and outperformance over the remainder of the control period. This valuation is carried out annually and revaluation gains and losses are reflected in other comprehensive income.

Depreciation

The railway network is depreciated on a straight-line basis over its estimated weighted average remaining useful economic life. The estimated remaining weighted average useful economic life of the network is currently 30 years (2012: 30 years). The remaining useful economic lives of network assets are estimated annually, with external verification of the valuation and asset lives carried out where required.

2. Significant accounting policies continued

Investment property
Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains and losses from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Research and development
Research and general development expenditure is charged to the income statement as incurred. Expenditure on the development of specific projects is capitalised only if all of the following conditions are met:

- An asset is created that can be identified
- It is probable that the asset created will generate future economic benefits
- The development cost of the asset can be measured reliably.

Intangible assets
An intangible asset is only recognised if it is probable that future economic benefits will flow to the group and its costs can be measured reliably. Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Licences and concessions are amortised over the length of their contractual agreement. Intangible assets are tested for impairment at each balance sheet date by comparing their carrying value and the expected discounted cash flows expected to arise from them over their contractual agreements. If the carrying value exceeds the discounted cash flows expected to arise from the assets, the carrying value would be impaired accordingly.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Financial instruments
Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets
Financial assets are classified as financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' financial assets, and 'loans and receivables'. Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts, recognised in the income statement. The remaining assets are measured at subsequent reporting dates at fair value.

Financial assets at FVTPL
Financial assets are classified as at fair value through profit or loss (FVTPL) where the asset is either held for trading or it is designated at FVTPL. Gains and losses arising from changes in fair value of these assets are recognised in the income statement for the period. A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a derivative that is not designated and effective as a hedging instrument.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets at FVTPL are stated at fair value with any resultant gain or loss recognised in the income statement. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss for all financial assets with the exception of trade receivables, which are reduced by appropriate allowances for irrecoverable amounts. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement. The reversal is only made to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents
Cash and cash equivalents comprise bank balances held by the group, commercial paper and money market deposit investments at varying rates. The carrying amount of these assets approximates their fair value.

2. Significant accounting policies continued

Joint ventures

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost and adjusted by post-acquisition changes in the group's share of net assets of joint ventures, less any impairment in the value of individual investments. Losses of a joint venture in excess of the group's interest in a joint venture are not recognised.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated at FVTPL. A financial liability is classified as held for trading if it is a derivative that is neither designated nor effective as a hedging instrument.

A financial liability other than a financial liability held for trading is designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise exist, in line with International Accounting Standard 39 Financial Instruments: Recognition and Measurement, paragraph 9(b)(i). Certain bonds, as set out in Note 19, are designated at FVTPL. These bonds are hedged by derivative financial instruments as part of a documented risk management strategy. By recognising these bonds and derivatives at FVTPL the recognition inconsistencies that would otherwise exist with regard to these risk management strategies are significantly reduced.

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or expire.

Debt

Debt instruments not designated at FVTPL are initially measured at fair value, net of discount and direct issue costs, and subsequently recognised at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are ordinarily not interest bearing and are stated at cost.

Derivative financial instruments and hedge accounting

The group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The group uses interest rate swaps, cross-currency swaps and foreign exchange forward contracts to hedge these exposures. The use of financial derivatives is governed by the group's policies approved by the treasury committee of the board, which provide written principles on the use of financial derivatives.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Derivatives are presented on the balance sheet in line with their maturity date.

The group designates certain hedging instruments as either cash flow hedges or fair value hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Some derivatives, while complying with the group's financial risk management policies, do not qualify for hedge accounting and are therefore classified as held for trading. Changes in the fair value of derivative financial instruments that do not qualify for cash flow hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised or no longer qualifies for hedge accounting. Where the instrument no longer qualifies for hedge accounting, the net cumulative gain or loss recognised in equity is reclassified to the income statement in the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses being reported in the income statement.

Note 20 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in the statements of changes in equity and in the statements of comprehensive income.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged item that is attributed to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised within 'other gains and losses' in the income statement.

2. Significant accounting policies continued

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income, and the ineffective portion is recognised immediately within 'other gains and losses' in the income statement.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Critical accounting judgements and key sources of uncertainty

(i) Property, plant and equipment – the railway network: the estimate of the fair value of the railway network is based on an income approach using the regulatory asset base, which equates to the discounted future cash flow associated with the network, adjusted for the net present value of any variances from the Office of Rail Regulation's determination included in the group's business plan. Further details are set out in Note 12.

(ii) Investment property – an element of the investment property portfolio valuation is determined using the Beacon method. Jones Lang LaSalle provided their assessment of yields for 12 properties in the portfolio. These are then used to produce income multipliers and applied to the rental streams from each of the individual properties in the portfolio to form an overall valuation. Further details are set out in Note 13.

(iii) Retirement benefit obligations – the group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 27. The total contribution rate payable under the Railway Pension Scheme (RPS) and the Career Average Revalued Earnings (CARE) scheme is normally split in the proportion 60:40 between the group and the members, respectively. The group reflects its share of the contribution in the financial statements.

3. Revenue

	2013 Group £m	2012 Group £m
Franchised track access and grant income	**5,893**	5,706
Freight revenue	**48**	51
Property rental income	**233**	215
Other income	**23**	32
Revenue for the year	**6,197**	6,004

The net effect of the performance regimes on the results of the group was a net loss of £109m (2012: net income of £6m).

4. Net operating costs

	2013 Group £m	2012 Group £m
Employee costs (see Note 6)	**1,779**	1,679
Own costs capitalised	**(653)**	(684)
Other external charges (including infrastructure maintenance costs)	**1,686**	1,594
Other operating income and recoveries	**(242)**	(242)
Net operating costs before depreciation	**2,570**	2,347
Depreciation	**1,491**	1,378
Capital grants amortised	**(81)**	(68)
Net operating costs	**3,980**	3,657

5. Profit from operations

Profit from operations is stated after charging/(crediting):

	2013 Group £m	2012 Group £m
Research and development costs expensed	**1**	2
Amortisation of intangible assets	**1**	1
Profit on sale of properties	**(36)**	(27)
Decrease in the fair value of investment properties	**39**	8
Cost of inventories recognised as an expense	**124**	165
Write downs of inventories recognised as an expense	**2**	1
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	**0.4**	0.3
Fees payable to the company's auditors for other audit related services		
– The audit of the company's subsidiaries pursuant to legislation	**0.1**	0.1
– Regulatory accounts audit and interim review	**0.1**	0.1
	0.6	0.5
Fees payable to the company's auditors for other non-audit related services		
– Consulting work in respect of the ORBIS project	**0.4**	0.1
Total non-audit fees	**0.4**	0.1
Total amounts payable to auditors	**1.0**	0.6

6. Employee costs

The monthly average number of employees (including executive directors) was:

	2013 Group Number	2012 Group Number
Management and operation of the railway	**35,190**	35,253

	2013 Group £m	2012 Group £m
Their aggregate remuneration comprised:		
Wages and salaries	**1,503**	1,489
Social security costs	**145**	131
Defined contribution pension costs (see Note 27)	**12**	14
Defined benefit pension costs – current service costs (see Note 27)	**119**	119
Defined benefit pension costs – past service costs (see Note 27)	**–**	(74)
	1,779	1,679

There are no employees of the company in the current or prior year.

7. Investment revenue

	2013 Group £m	2012 Group £m
Interest receivable on investments and deposits	**19**	44
Interest receivable on finance leases	**–**	1
	19	45

Investment revenue earned on financial assets analysed by category of asset, is as follows:

	2013 Group £m	2012 Group £m
Loans and receivables (including cash and bank balances)	**19**	45
	19	45

8. Other gains and losses

	2013 Group £m	2012 Group £m
Net ineffectiveness arising from cash flow hedge accounting	**(5)**	(124)
Fair value gain/(loss) on fair value hedges	**308**	(103)
Fair value (loss)/gain on carrying value of fair value hedged debt	**(304)**	77
Gain/(loss) arising from fair value hedge accounting	**4**	(26)
Net decrease/(increase) in fair value of non-hedge accounted debt	**3**	(8)
Loss on derivatives not hedge accounted	**(45)**	(409)
Losses arising from non-hedge accounting	**(42)**	(417)
Total other losses	**(43)**	(567)

No other gains and losses have been recognised in respect of loans and receivables other than those disclosed in this note. No gains or losses have been recognised on financial liabilities measured at amortised cost other than those disclosed in Note 9.

The movements in the hedged risk adjustment on fair value hedged debt, the movement in fair value of debt designated as fair value through profit and loss and exchange differences on retranslation of foreign currency debt that form part of the above net gains/losses are in relation to debt issuances disclosed in Note 19.

Debt and derivative revaluations

The income statement has been presented in a three-column format in order to allow users to appreciate the impact of the revaluation of debt and derivatives on the results for the year. Not all hedging strategies qualify for hedge accounting and the directors believe that by separating gains and losses arising from applying the valuation requirements of IAS 39, the users of this financial information will better understand the underlying performance of the group.

Those items that have been identified for disclosure as changes in debt and derivative valuations are explained above.

9. Finance costs

	2013 Group £m	2012 Group £m
Interest on bank loans and overdrafts	**37**	54
Interest on bonds issued under the Debt Issuance Programme	**1,255**	1,238
Expected return on assets less interest on liabilities in respect of defined benefit pension schemes	**14**	3
Other interest	**218**	200
Total borrowing costs	**1,524**	1,495
Less: capitalised interest	**(109)**	(126)
Total finance costs	**1,415**	1,369

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is financed by the group. The average rate used during the year was 5.3 per cent (2012: 5.6 per cent).

10. Tax

	2013 Group £m	2012 Group £m
Current tax:		
UK corporation tax at 24 per cent (2012: 26 per cent):		
Corporation tax charge	**11**	12
Less advance corporation tax (ACT) set-off	**(4)**	(5)
Corporation tax liability	**7**	7
Adjustments in respect of prior years	**–**	(15)
Total current tax	**7**	(8)
Deferred tax:		
Deferred tax at 23 per cent (2012: 24 per cent)		
Current year charge	**152**	96
Effect of rate change	**(83)**	(168)
Adjustments in respect of prior years	**–**	(206)
Total deferred tax	**69**	(278)
Total tax	**76**	(286)

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2013 Group £m	2012 Group £m
Profit before tax	**775**	475
Tax at the UK corporation tax rate of 24 per cent (2012: 26 per cent)	**186**	124
Adjustments in respect of prior years	**–**	(221)
Effect of rate change	**(83)**	(168)
Income not subject to tax	**(23)**	(16)
Advance corporation tax previously written off	**(4)**	(5)
Tax charge for the year	**76**	(286)

In addition to the amounts charged to the income statement, deferred tax relating to the revaluation of the railway network amounting to a credit of £140m including the impact of the rate change (2012: £32m credit) has been charged directly to equity. Movements on the hedging reserve amounted to a £36m charge including the impact of the rate change (2012: £50m charge). Movements relating to retirement benefit obligations amounted to a £134m credit to equity including the impact of the rate change (2012: £47m credit). The adjustment in respect of prior years relates to reassessments of provisions for deductions in capital allowances.

Closing deferred tax is calculated at a rate of 23 per cent (2012: 24 per cent); the rate substantively enacted as at the balance sheet date.

UK corporation tax is calculated at 24 per cent (2012: 26 per cent). Further reductions to the UK tax rate have been announced. The changes, which are expected to be enacted separately each year, propose to reduce the tax rate to 21 per cent from 1 April 2014 and 20 per cent from 1 April 2015. The changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

The proposed reductions to the main rate of corporation tax are both expected to be enacted as part of Finance Act 2013. The overall effect of these further changes if applied to the deferred tax balance at the balance sheet date, would be to further reduce the defered tax liability by an additional £380m.

The group has £31m (2012: £35m) of surplus ACT carried forward. No deferred tax asset has been provided in respect of this amount.

11. Intangible assets

Group	Concessions £m
Cost	
At 1 April 2011, 31 March 2012 and 31 March 2013	78
Accumulated amortisation	
At 1 April 2011	(7)
Charge for the year	(1)
At 31 March 2012	**(8)**
Charge for the year	(1)
At 31 March 2013	**(9)**
Carrying amount	
At 31 March 2013	**69**
At 31 March 2012	70

The intangible assets above relate to the concession to run the operations, maintenance and renewal business of the Channel Tunnel Rail Link, and are held by the wholly owned group company Network Rail (High Speed) Limited.

Intangible assets are being amortised over 83 years, to 2086. Amortisation is charged to net operating costs in the income statement.

12. Property, plant and equipment – the railway network

	Group £m
Valuation	
At 1 April 2011	39,577
Additions	4,600
Depreciation charge for the year	(1,378)
Revaluation in the year	313
At 31 March 2012	**43,112**
Additions	5,050
Transfer from investment property	92
Depreciation charge for the year	(1,491)
Revaluation in the year	(352)
At 31 March 2013	**46,411**

Given the interdependency of the assets comprising the railway network, the group has concluded that the railway network is a single class of asset. The railway network is carried at its fair value, which is measured as the estimated future cash flows that are expected to be generated in perpetuity, discounted at Network Rail Infrastructure Limited's pre-tax rate of return, as set by the independent rail regulator, the Office of Rail Regulation (the ORR), in its Access Charges Review. This rate reflects the risks and opportunities that exist in the regulated market for railway infrastructure assets and equates to the cost of capital for this market.

The Regulatory Asset Base (RAB) is a proxy for the present value of future cash flows

As there is no active market in railway infrastructure assets, the group has derived the fair value of the railway network using an income approach. The income approach assesses the discounted future cash flows that are generated by the railway network. This valuation is carried out annually and revaluation gains and losses are reflected in other comprehensive income.

The income approach to determining the fair value of the railway network involves using the RAB, which is a proxy for a discounted cash flow calculation, adjusted for forecast performance variations.

12. Property, plant and equipment – the railway network continued

The RAB is used by the ORR to set Network Rail's charges to customers and is a proxy for the present value of future cash flows. Annual income (receivable as track access charges and the network grant) comprises three elements:

a) Efficient operating and maintenance costs – paid to Network Rail as they are expected to be incurred

b) RAB amortisation – capital expenditure is added to the RAB as incurred in order to spread the cost to customers and stakeholders of investment in the railway network over many years. The ORR allows Network Rail to recover these costs through amortisation of the RAB

c) Allowed return – calculated by applying the rate of return permitted by the ORR (based on its assessment of the market's cost of capital) to the RAB balance. If this rate of return changes, then this element of the Network Rail Infrastructure Limited's income changes, but the RAB does not change.

The RAB is a proxy for the present value of the future cash flows because the net cash flow that the group is allowed to earn is the RAB multiplied by the rate of return allowed by the regulator, which reflects the risks and opportunities that exist in the regulated market for railway infrastructure assets. This rate equates to the market's pre-tax cost of capital.

Discount rate

The discount rate used in the income approach is the pre-tax rate of return set by the ORR. The ORR performs a periodic review every five years, which leads to the setting of the appropriate rate for the five-year period. The ORR's method encompasses advice from consultants, comparisons to similar infrastructure assets and discussions with Network Rail. The rate of return set by the ORR reflects the risks and opportunities that exist in the regulated market for railway infrastructure assets and equates to the cost of capital for this market.

The group's annual revaluation includes an assessment of the discount rate set by the ORR to determine whether it continues to reflect current conditions in the market. Should this assessment show that the market cost of capital is materially different to the rate set by the ORR, this will be reflected in the valuation.

The permitted rate of return was determined by the ORR, for the five years to April 2014, to be 4.75 per cent. Should the ORR amend the permitted rate of return in future quinquennial reviews, the regulator would raise or lower Network Rail's permitted charges to customers so as to achieve this rate of return. In other words, the cash flows would change but the RAB would not. The RAB is therefore a proxy for the present value of future cash flows.

In the most recent Access Charges Review, the ORR set out its purpose in setting this rate as:

a) Reflecting risks in delivering the capital programme of works

b) Ensuring comparability between Network Rail and competitors for the delivery of enhancements

c) Enabling the group to raise debt at a reasonable price.

The rate of return set by the regulator is, at each quinquennial review date, consistent with the market discount rates for infrastructure assets. Movements in the market cost of capital within a review period would have a small effect on the valuation of the railway network. However, at the start of the next review period, the regulator will re-evaluate the rate of return and reset it to the market rate. Changes in the fair value of the railway network resulting from movements in the market rate would not be permanent – only lasting until the next review.

The group's annual valuation includes a reassessment of this rate to determine whether it continues to reflect conditions in the market in between review dates. This assessment is by reference to movements in observable market data, including the risk-free cost of borrowing, and changes in the weighted average cost of capital of listed utilities with similar gearing ratios. The most recent assessment has shown that there has been no material change in cost of capital within the control period to date.

The following table shows the effect of changes in the market discount rate on the carrying value of the railway network and on the depreciation charge. The analysis only considers the effects of movements in the market discount rate until the end of the control period (2014), and not in perpetuity. This is because the regulator performs a review every five years, so the rate applicable to the income streams derived from the railway network will be rebased to the market every five years. The effects of changes in the market discount rate apply equally to increases and to decreases in discount rates.

12. Property, plant and equipment – the railway network continued

	Change in cost of capital (basis points)	**31 March 2013**	31 March 2012
Change in fair value	25	**£98m**	£190m
	50	**£195m**	£379m
Percentage change in fair value	25	**0.2%**	0.5 %
	50	**0.5%**	1.0 %
Change in annual depreciation charge	25	**£3m**	£6m
	50	**£7m**	£13m

These sensitivities are calculated by reference to the RAB used by the ORR to determine the allowed return, equal to the regulatory determination of the cost of capital, as set out in the ORR's *Periodic Review 2008: Determination of Network Rail's outputs and funding 2009-14*. Twenty five and fifty basis points were chosen as management's assessment of reasonably possible changes in the market cost of capital.

The sensitivities calculated the discounted additional income or expense that could arise if the actual cost of capital varied from the regulatory cost of capital between quinquennial reviews.

Forecast performance variations

The annual valuation includes a review of changes in cash flow estimates and an assessment of current operational and economic conditions, as well as operational and political risk. These changes are reflected in the valuation so that the resulting fair value of the railway network remains current throughout the five years between periodic reviews.

Critical judgements

The valuation also includes the following critical judgements:

a) Cash flows remain stable and robust. The regulatory financial framework has remained robust and stable over recent years and is expected to continue to be so in the future.

b) The residual value of the railway network is considered immaterial to assessing its annual depreciation charge. This is because evidence from other disused parts of the railway network indicates that the residual value is negligible and includes significant onerous obligations. In addition, the value of the land on which the railway network stands is immaterial to the value of the assets that comprise the network.

c) The quinquennial charges review sets out renewals allowances that can be added to the RAB. The allowances take account of input prices using the Infrastructure Output Prices Index (IOPI) as published by the Royal Institution of Chartered Surveyors. The expected future changes in IOPI in comparison to RPI, on which the group's income flows are based, is a critical judgement to the railway network valuation. The expected future changes reduce the network valuation by £200m (2012: £355m). This forecast is based on management's expectations that IOPI will broadly track general economic inflation as measured by RPI over the remainder of the five-year period. The renewals allowances, and therefore the valuation, would change by £25m for every one per cent change in IOPI in comparison to RPI over the one year to the end of the current quinquennial review period at 31 March 2014.

d) We have been advised by the ORR of prospective adjustments to the RAB in relation to deemed under performance in asset management, specifically on our civils assets (including bridges and earthworks), fencing and drainage. Network Rail does not agree with the principle or the basis of assessment and discussions are at an early stage. The ORR has informed us that they will assess and conclude on the quantum of the adjustments in their annual efficiency and finance assessment later this year. Whilst the adjustments could reduce the RAB and therefore the valuation of the railway network by up to £1bn, the outcome of discussions with the ORR is so uncertain that we have not reflected any reduction in the accounts.

12. Property, plant and equipment – the railway network continued

Depreciated replacement cost

In the year ended 31 March 2009 Ove Arup and Partners reviewed Network Rail Infrastructure Limited's engineering assessment of the serviceable economic lives of the major asset categories that comprise the railway network and their depreciated replacement cost. They confirmed in writing to the directors that the basis upon which the assessment had been prepared was reasonable.

The depreciated replacement cost of the network (after excluding the replacement cost of embankments, cuttings and tunnels) is estimated at £75bn (2012: £75bn).

As at 31 March 2013 the comparable valuation of the railway network according to the historical cost convention is £42,149m (2012: £38,372m).

As at 31 March 2013 and 31 March 2012 it has not been possible to identify the undepreciated capitalised interest or the undepreciated finance leases within the net book value of fixed assets. The depreciated interest capitalised since the date of adoption of the network value at deemed cost on 1 April 2002 was £745m (2012: £660m). No finance leased assets have been acquired since 1 April 2002.

The depreciation charge for the year is calculated using the average carrying value for the year and the estimated weighted average remaining useful economic life of the railway network. The weighted average remaining useful economic life of the railway network was calculated using the engineering assessment of serviceable economic lives of the major categories of asset that comprise the railway network. The estimated weighted average remaining useful economic life of the network is currently 30 years (2012: 30 years).

At 31 March 2013, the group had entered into contractual commitments in respect of capital expenditure amounting to £1,356m (2012: £1,706m).

13. Investment property

	Group £m
Fair value	
At 1 April 2011	778
Additions	110
Disposals	(2)
Decrease in fair value in the year	(8)
At 31 March 2012	878
Additions	7
Disposals	(3)
Transfer to property, plant and equipment	(92)
Decrease in fair value in the year	(39)
At 31 March 2013	751

The fair values of the group's investment properties at 31 March 2013 have been arrived at on the basis of a valuation carried out at that date by Jones Lang LaSalle, external valuers not connected with the group.

The valuation, which conforms to International Valuation Standards, was arrived at by splitting the portfolio between one-off individual properties to be valued externally and the remainder of the portfolio to be valued under the Beacon method.

Jones Lang LaSalle provided independent valuations of 15 one-off individual properties, amounting to 15 per cent of the total valuation. The balance of the estate was valued under the Beacon method by splitting the portfolio into 12 homogeneous classes of property and areas. Jones Lang LaSalle independently assessed the appropriate yield to be adopted within each of these classes and areas. This enabled the directors to estimate market values by applying the provided yields to the net rental income from these properties, in accordance with a standard UK investment property valuation.

The property rental income earned by the group from its investment property, all of which is leased out under operating leases, amounted to £96m (2012: £85m). Direct operating expenses arising on the investment properties in the year amounted to £5m (2012: £6m).

The group's investment properties are let on a tenant repairing basis. The group's maintenance obligations are limited to common areas and vacant property units.

14. Investments in subsidiaries: Company

Principal subsidiaries	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Network Rail Insurance Limited	Guernsey	100 %	Insurance
Network Rail Holdco Limited*	Great Brittain	100 %	Holding company of Network Rail Infrastructure Limited
Network Rail (High Speed) Limited	Great Britain	100 %	Holds St Pancras concession and High Speed Railway Services Agreement
Network Rail Development Limited	Great Britain	100 %	Holds 49.95 % of each of the property joint ventures Solum Regeneration Limited Partnership and Solum Regeneration Epsom Limited Partnership
Network Rail Pension Trustee Limited	Great Britain	Company limited by guarantee	Administration of defined contribution pension scheme
Network Rail Consulting Limited	Great Britain	100 %	International rail consultancy
Network Rail Certification Body Limited	Great Britain	100 %	Conformity assessment services to the rail industry
Shares held by a trustee			
Network Rail Infrastructure Finance PLC	Great Britain	Shares held by HSBC Trustee (C.I.) Limited	Issuer of the Debt Issuance Programme

* Directly owned by Network Rail Limited.

The shares in Network Rail Infrastructure Finance PLC are held by HSBC Trustee (C.I.) Limited, for charitable purposes. The sole purpose of this company is to act as a special purpose funding vehicle. The company is treated as a subsidiary for accounting purposes as proceeds from debt issuances are lent on to Network Rail Infrastructure Limited and are used to finance the activities and to refinance the existing debt of the group.

Joint ventures	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Solum Regeneration (GP) Limited	Great Britain	50 %	Holds 0.1 % of the property joint venture Solum Regeneration Limited Partnership
Solum Regeneration (Epsom) (GP) Limited	Great Britain	50 %	Holds 0.1 % of the property joint venture Solum Regeneration (Epsom) Limited Partnership
Solum Regeneration Limited Partnership	Great Britain	50 %	Property development
Solum Regeneration (Epsom) Limited Partnership	Great Britain	50 %	Property development

15. Inventories

	2013 Group £m	2012 Group £m
Raw materials and consumables	**157**	125

As at 31 March 2013 a provision of £27m was held in respect of inventories (2012: £29m).

16. Finance lease receivables

	Minimum lease payments 2013 Group £m	2012 Group £m	Present value of minimum lease payments 2013 Group £m	2012 Group £m
Amounts receivable under finance leases:				
Within one year	**2**	2	**2**	1
In the second to fifth years inclusive	**4**	5	**3**	5
After five years	**–**	–	**–**	–
	6	7	**5**	6
Less: unearned finance income	**(1)**	(1)	**n/a**	n/a
Present value of minimum lease payments receivable	**5**	6	**5**	6
Analysed as:				
Current finance lease receivables (recoverable within one year)	**2**	1	**2**	1
Non-current finance lease receivables (recoverable after one year)	**3**	5	**3**	5
	5	6	**5**	6

The group has entered into finance lease arrangements with third parties for various types of telecommunications equipment. Leases are due to expire in 2017.

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted is approximately 8.4 per cent (2012: 8.4 per cent) per annum.

Finance lease receivable balances are secured over the equipment leased. The group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

The fair value of the group's finance lease receivables at 31 March 2013 is estimated at £6m (2012: £6m) using a 0.97 per cent (2012: 1.8 per cent) discount rate based on the average cost of capital associated with the remaining life of the lease.

17. Trade and other receivables

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Trade receivables	**240**	201	**–**	–
Capital grants receivable	**153**	133	**–**	–
Other taxation and social security	**102**	80	**–**	–
Other receivables	**58**	38	**–**	–
Prepayments and accrued income	**223**	220	**–**	–
	776	672	**–**	–

Trade receivables include an allowance for estimated irrecoverable amounts from the supply of services of £20m (2012: £23m). This allowance has been made by reference to past default experience. Average debtor days were 36 days (2012: 46 days).

The directors consider that the carrying value of trade and other receivables approximates to their fair value. All balances are non-interest bearing and denominated in sterling. The group provides fully for receivables overdue by over six months because historical experience is that such receivables are generally not recoverable. All other trade receivables are provided for on the basis of estimated irrecoverable amounts, determined by reference to past default experience.

The group's credit risk is primarily attributable to its trade receivables. Around 95 per cent of the group's income is received from train operating companies (TOCs) and in the form of revenue grants from Government. Franchises are issued to TOCs by the Department for Transport (DfT) in England and Wales and Transport Scotland in Scotland. The group believes that amounts receivable from Government and the TOCs represent a high level of credit quality. This is because in the extraordinary circumstance that a TOC were to be unable to meet its obligations then provisions in the franchise agreements allow the DfT to take over services at any time. Before accepting any other new customer, the group uses an external credit scoring system to assess the potential customer's credit quality.

Included in the group's trade receivable balance are debtors with a carrying value of £48m (2012: £32m) which are past due at the reporting date for which the group has not provided as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The group does not hold collateral over these balances. The average age of these receivables is 35 days (2012: 31 days).

17. Trade and other receivables continued

The following table shows the age of financial assets for the group which are past due and for which no specific provision has been raised:

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Past due by 1 – 28 days	**23**	24	**–**	–
Past due by 29 – 56 days	**2**	4	**–**	–
Past due by 57 – 84 days	**2**	2	**–**	–
Past due by 85 – 180 days	**7**	2	**–**	–
	34	32	**–**	–

18. Trade and other payables

Current liabilities: trade and other payables	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Trade payables	**488**	611	**–**	–
Collateral received from banking counterparties	**404**	81	**–**	–
Payments received on account	**–**	16	**–**	–
Other payables	**303**	122	**–**	–
Other interest accruals	**241**	250	**–**	–
Other accruals and deferred income	**1,958**	1,624	**–**	–
	3,394	2,704	**–**	–

The average credit period taken for trade purchases is 30 days (2012: 41 days).

Before accepting new suppliers, and upon letting significant contracts, the group evaluates suppliers' creditworthiness using external credit scoring systems and other relevant data.

The directors consider that the carrying value of trade and other payables approximates to their fair value. All balances are ordinarily non-interest bearing and denominated in sterling.

Non-current liabilities: other payables	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Capital grants deferred income	**2,524**	2,468	**–**	–
Other payables	**429**	301	**–**	–
	2,953	2,769	**–**	–

19. Borrowings

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Net borrowings by instrument				
Cash and cash equivalents*	**3,506**	1,886	**–**	–
Collateral placed with counterparties	**14**	**–**		
Collateral received from counterparties	**(404)**	(81)	**–**	–
Commercial paper	**(30)**	–	**–**	–
Bank loans	**(666)**	(967)	**–**	–
Bonds issued under the Debt Issuance Programme (less unamortised premium, discount and fees)	**(32,778)**	(28,119)	**–**	–
Obligations under finance leases	**–**	(1)	**–**	–
	(30,358)	(27,282)	**–**	–
Movement in net borrowings				
At the beginning of the period	**(27,282)**	(25,056)	**–**	–
Increase in cash and cash equivalents	**1,620**	1,115	**–**	–
Proceeds from borrowings	**(4,751)**	(5,489)	**–**	–
Repayments of borrowings	**1,203**	2,545	**–**	–
Repayment of obligation under finance leases	**1**	1	**–**	–
Capital accretion	**(485)**	(521)	**–**	–
Exchange differences	**(73)**	(30)	**–**	–
Movement in collateral placed with counterparties	**14**	–		
Movement in collateral received from counterparties	**(323)**	78	**–**	–
Fair value and other movements	**(282)**	75	**–**	–
At the end of the period	**(30,358)**	(27,282)	**–**	–

Net borrowings are reconciled to the balance sheet as set out below:				
Cash and cash equivalents*	**3,506**	1,886	**–**	–
Collateral placed with counterparties (included in trade and other receivables)	**14**	–		
Collateral received from counterparties (included in trade and other payables)	**(404)**	(81)		
Borrowings included in current liabilities	**(4,120)**	(1,157)	**–**	–
Borrowings included in non-current liabilities	**(29,354)**	(27,929)	**–**	–
Obligations under finance leases	**–**	(1)	**–**	–
	(30,358)	(27,282)	**–**	–

* Includes collateral received from derivative counterparties of £404m (2012: £81m).

19. Borrowings continued

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
1.085% sterling index linked bond due 2052	**119**	115	**–**	–
0% sterling index linked bond due 2052	**105**	104	**–**	–
1.003% sterling index linked bond due 2051	**22**	22	**–**	–
0.53% sterling index linked bond due 2051	**115**	112	**–**	–
0.517% sterling index linked bond due 2051	**115**	112	**–**	–
0% sterling index linked bond due 2051	**125**	120	**–**	–
0.678% sterling index linked bond due 2048	**114**	111	**–**	–
1.125% sterling index linked bond due 2047	**4,466**	4,094	**–**	–
0% sterling index linked bond due 2047	**75**	72	**–**	–
1.1335% sterling index linked bond due 2045	**47**	45	**–**	–
1.5646% sterling index linked bond due 2044	**259**	251	**–**	–
1.1565% sterling index linked bond due 2043	**52**	51	**–**	–
1.1795% sterling index linked bond due 2041	**64**	62	**–**	–
1.2219% sterling index linked bond due 2040	**256**	248	**–**	–
1.2025% sterling index linked bond due 2039	**70**	68	**–**	–
4.6535% sterling bond due 2038	**100**	100	**–**	–
1.375% sterling index linked bond due 2037	**4,932**	4,428	**–**	–
4.75% sterling bond due 2035	**1,226**	1,225	**–**	–
1.6492% sterling index linked bond due 2035	**389**	378	**–**	–
4.375% sterling bond due 2030	**870**	870	**–**	–
1.75% sterling index linked bond due 2027	**4,782**	3,892	**–**	–
4.615% Norwegian krone bond due 2026*	**62**	56	**–**	–
4.57% Norwegian krone bond due 2026*	**17**	16	**–**	–
1.9618% sterling index linked bond due 2025	**328**	318	**–**	–
4.75% sterling bond due 2024	**731**	729	**–**	–
2.76% Swiss franc bond due 2021	**208**	208	**–**	–
2.315% Japanese yen bond due 2021*	**79**	83	**–**	–
2.28% Japanese yen bond due 2021*	**79**	83	**–**	–
2.15% Japanese yen bond due 2021*	**79**	82	**–**	–
4.625% sterling bond due 2020	**997**	997	**–**	–
0.75 % US dollar bond due 2017	**822**	–	**–**	–
1 % sterling bond due 2017	**745**	–	**–**	–
6% Australian dollar bond due 2016	**344**	323	**–**	–
4.4% Canadian dollar bond due 2016	**324**	312	**–**	–
1.25% US dollar bond due 2016	**673**	625	**–**	–
Floating rate sterling bond due 2016	**599**	–	**–**	–
0.625 % US dollar bond due 2015	**994**	–	**–**	–
4.875% sterling bond due 2015	**996**	995	**–**	–
1.25% sterling bond due 2015	**1,498**	1,497	**–**	–
0.875% US dollar bond due 2015	**997**	940	**–**	–
2.5% sterling bond due 2014	**1,257**	1,006	**–**	–
1.5% US dollar bond due 2014	**1,164**	1,111	**–**	–
Floating rate US dollar bond 2013	**658**	719	**–**	–
3.5% US dollar bond due 2013	**824**	780	**–**	–
1.75% US dollar bond due 2013	**–**	633	**–**	–
Floating rate US dollar bond 2012	**–**	63	**–**	–
0.52% US dollar bond due 2012	**–**	63	**–**	–
	32,778	28,119	**–**	–

* Amounts are shown as fair value through profit and loss. All other amounts are shown net of unamortised discount and fees.

19. Borrowings continued

Bank loans and overdrafts are analysed as follows:

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Index-linked European Investment Bank due 2036 (£219m) and 2037 (£217m)	**436**	424	**–**	–
Barclays Bank due 2017 repayable by instalments	**30**	42	**–**	–
5.57 % European Investment Bank due 2013	**200**	201	**–**	–
5.77 % European Investment Bank due 2012	–	300	**–**	–
	666	967	**–**	–

At 31 March 2013 and 2012 the group had the following undrawn committed borrowing facilities:

	2013 Drawn £m	2013 Undrawn £m	2013 Total £m	2012 Drawn £m	2012 Undrawn £m	2012 Total £m
Working capital facility	**–**	**–**	**–**	–	1,000	1,000
Standby facility A	**–**	**4,000**	**4,000**	–	4,000	4,000
	–	**4,000**	**4,000**	–	5,000	5,000

Undrawn committed facilities expire as follows:

	2013 Group £m	2012 Group £m
Within one year	**–**	1,000
Within two to five years	**–**	–
After five years	**4,000**	4,000
	4,000	5,000

The £1bn working capital facility expired on 25 April 2012. The directors decided not to renew the facility and will hold sufficient cash to provide liquidity.

In addition the Secretary of State for Transport has provided unlimited financial indemnity in respect of borrowings under the Debt Issuance Programme.

20. Derivative financial instruments

	2013 Group Fair value £m	2013 Group Notional amounts £m
Cash flow hedges		
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	579	1,222
Fair value hedges		
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	217	5,066
Non-hedge accounted derivatives		
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	133	198
Interest rate swaps	24	2,700
Forward foreign exchange contracts	–	17
	953	9,203
Included in non-current assets	697	6,807
Included in current assets	256	2,396
Derivative financial instrument assets	953	9,203
Cash flow hedges		
Interest rate swaps	(106)	583
Forward starting interest rate swaps	(86)	4,900
Non-hedge accounted derivatives		
Interest rate swaps to hedge debt issued under the Debt Issuance Programme	(438)	5,950
Forward foreign exchange contracts	(1)	48
	(631)	11,481
Included in current liabilities	(23)	542
Included in non-current liabilities	(608)	10,939
Derivative financial instrument liabilities	(631)	11,481

20. Derivative financial instruments continued

	2012 Group Fair value £m	Notional amounts £m
Cash flow hedges		
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	490	1,222
Fair value hedges		
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	26	1,094
Non-hedge accounted derivatives		
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	153	198
Interest rate swaps	4	1,750
Forward foreign exchange contracts	–	12
	673	4,276
Included in non-current assets	672	4,202
Included in current assets	1	74
Derivative financial instrument assets	673	4,276
Cash flow hedges		
Interest rate swaps	(102)	583
Forward starting interest rate swaps	(161)	2,600
Fair value hedges		
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	(122)	3,122
Non-hedge accounted derivatives		
Interest rate swaps to hedge debt issued under the Debt Issuance Programme	(437)	4,400
Forward starting real interest rate swaps and gilt locks	(385)	847
Forward foreign exchange contracts	(1)	54
	(1,208)	11,606
Included in current liabilities	(411)	1,608
Included in non-current liabilities	(797)	9,998
Derivative financial instrument liabilities	(1,208)	11,606

21. Provisions

	Group £m
At 1 April 2012	12
Additional provision in the year	–
Utilisation of provision	(3)
Release of provision	(1)
At 31 March 2013	8
Included in current liabilities	8
Included in non-current liabilities	–
	8

The group has provided against a number of commercial claims from third parties arising from interpretations of legal contracts or past events for which settlement is expected to be achieved in the next year, but could be deferred to future years depending on the legal interpretation of rights and responsibilities under the contracts as well as commercial negotiation. The provisions that have been recorded represent the directors' best estimate of the expenditure required to settle the obligation, often with the benefit of legal advice.

Contingent liability

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. The nature of these claims means that there is some uncertainty with regard to the value that they will be settled at. If the outcomes of the claims are different to the assumptions underpinning the directors' best estimates then a further liability may arise.

The group's lawyers have advised that the provisions for the claims are realistic and no provision has been made for contingent liabilities as the directors do not consider there is any probable loss. In accordance with paragraph 92 of IAS 37 the directors consider that further disclosure regarding the nature and amount of the disputes beyond that disclosed here could be expected to prejudice seriously the position of the group.

22. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and company and movement thereon during the current and prior year.

Group	Accelerated tax depreciation £m	Revaluation of railway network £m	Short-term timing differences including retirement benefit obligations £m	Derivatives £m	Tax losses £m	Total £m
At 1 April 2011	3,448	1,389	(129)	(147)	(1,176)	3,385
Charge/(credit) to income	(202)	–	(26)	(116)	66	(278)
(Credit)/charge to other comprehensive income	–	(32)	(47)	50	–	(29)
At 1 April 2012	**3,246**	**1,357**	**(202)**	**(213)**	**(1,110)**	**3,078**
(Credit)/charge to income	(73)	1	(17)	(5)	163	69
(Credit)/charge to other comprehensive income	–	(140)	(134)	36	–	(238)
At 31 March 2013	**3,173**	**1,218**	**(353)**	**(182)**	**(947)**	**2,909**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances:

	2013 £m	2012 £m
Deferred tax liabilities	**4,391**	4,603
Deferred tax assets	**(1,482)**	(1,525)
	2,909	3,078

23. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2013 Group £m	2012 Group £m	**2013 Group £m**	2012 Group £m
Amounts payable under finance leases:				
Within one year	**–**	1	**–**	1
In the second to fifth years inclusive	**–**	–	**–**	–
After five years	**–**	–	**–**	–
	–	1	**–**	1
Less: future finance charges	**–**	–	**n/a**	n/a
Present value of lease obligations	**–**	1	**–**	1
Less: amounts repayable within one year (shown under current liabilities)	**–**	1	**–**	1
Amounts repayable after more than one year	**–**	–	**–**	–

The group leases certain fixtures and fittings under finance leases from third parties. All lease obligations are denominated in sterling. The fair value of the group's lease obligations approximates to their carrying amount. The group's obligations under finance leases are secured by the lessors' charges over the leased assets. For the year ended 31 March 2013, the effective borrowing rate was 7.4 per cent (2012: 7.4 per cent). Interest rates are fixed at contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rent payments.

24. Notes to the statements of cash flows

	2013 Group £m	2012 Group £m	**2013 Company £m**	2012 Company £m
Profit before tax	**775**	475	**–**	–
Adjustments for:				
Property revaluation movements and profits on disposal	**3**	(19)	**–**	–
Fair value loss on derivatives and debt	**43**	567	**–**	–
Net interest expense	**1,396**	1,324	**–**	–
Depreciation of the railway network	**1,491**	1,378	**–**	–
Amortisation of capital grants	**(81)**	(68)	**–**	–
Amortisation of intangible assets	**1**	1	**–**	–
Movement in retirement benefit obligations	**14**	(72)	**–**	–
Decrease in provisions	**(4)**	(5)	**–**	–
Operating cash flows before movements in working capital	**3,638**	3,581	**–**	–
Increase in inventories	**(32)**	(17)	**–**	–
(Increase)/decrease in receivables	**(106)**	48	**–**	–
Increase in payables	**249**	50	**–**	–
Cash generated from operations	**3,749**	3,662	**–**	–

Cash and cash equivalents

Cash and cash equivalents (which are represented as a single class of assets on the face of the balance sheet) comprise cash at bank, collateral, commercial paper and money market deposit investments, all of which are on call with the exception of £282m of short-term deposits with an average term of 29 days (2012: £20m two days) from the balance sheet date. Cash and money market deposits had an average maturity of five days (2012: one day) from the balance sheet date.

25. Operating lease arrangements

The group as lessee	2013 Group £m	2012 Group £m
Minimum lease payments under operating leases recognised in the income statement in the year	**24**	38

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013 Group £m	2012 Group £m
Within one year	**19**	37
In the second to fifth years inclusive	**73**	120
After five years	**85**	98
	177	255

Operating lease payments largely represent rentals payable by the group for certain of its office properties. Leases are negotiated for an average term of seven years and rentals fixed for an average of three years. In addition rentals are paid for land adjacent to the railway required for maintenance and renewal activities.

The group as lessor

Operating lease rentals earned in the year by the group were £260m (2012: £232m). This amount includes property rental income of £233m (2012: £215m), as disclosed in Note 3, and a portion of track access income (being income earned from station and depot leases to train operating companies).

At the balance sheet date, the group had contracted with customers for the following future minimum lease payments:

	2013 Group £m	2012 Group £m
Within one year	**368**	336
In the second to fifth years inclusive	**624**	640
After five years	**1,120**	1,104
	2,112	2,080

26. Funding and financial risk management

Introduction

The group is almost entirely debt funded. Debt is issued through a special purpose financing company (Network Rail Infrastructure Finance PLC) which is not a member of the Network Rail Limited Group but is treated as a subsidiary for accounting purposes. The majority of the group's debt is issued by Network Rail Infrastructure Finance PLC under the Debt Issuance Programme (DIP) which has been highly rated (AAA by Standard & Poor's, Aa1 (stable outlook) by Moody's and AA+ (stable outlook) by Fitch). The DIP is supported by a financial indemnity from the Secretary of State for Transport which expires in 2052.

The DIP allows access, through a single platform, to the widest possible sources of funding, at the lowest possible cost, including the long-term capital markets. This gives Network Rail a stable base for funding a continuing programme of long-term investments in the national rail network. Debt is issued in a number of currencies and a range of maturities which gives rise to interest rate, foreign currency and inflation risk. Financial risk management aims to mitigate these risks.

Externally imposed capital requirements

The financial framework in which Network Rail operates is framed by the value of its debt and the RAB. The Network Rail Group raises finance by issuing debt and therefore manages its debt as the key part of its capital. Network Rail manages its debt in relation to the RAB and its finance costs in relation to the allowed return on the RAB.

This is an important business ratio because the value of the RAB and the amount of debt that the business can sustain are, generally speaking, closely related. Network Rail's debts cannot exceed the value of the RAB; a debt to RAB ratio of significantly less than 100 per cent indicates that the business is more robust to future cost shocks (because it is more likely to be able to sustain the additional debt that would arise from any losses incurred).

Network Rail's charges to customers are determined by the ORR. A key component of these charges is the allowed return on the RAB, as this is set at the ORR's assessment of the weighted average cost of capital in this market.

The RAB and regulatory debt are reconciled to property, plant and equipment (in Note 12) and net debt (in Note 19) as follows:

The debt to RAB ratio is based on regulatory net debt, which recognises debt at hedged rates.

	2013 £m	2012 £m
Net debt note per Note 19	**(30,358)**	(27,282)
Revaluations and remeasurements	**1,087**	793
Regulatory net debt	**(29,271)**	(26,489)

The RAB used to calculate the debt to RAB ratio is:

	2013 £m	2012 £m
Railway network per Note 12	**46,411**	43,112
Investment properties per Note 13	**751**	878
Capital grant funded assets	**(2,500)**	(2,251)
Other fair value adjustments	**276**	632
RAB	**44,938**	42,371

The debt to RAB ratio at 31 March 2013 and 2012 was as follows:

	2013	2012
Debt: RAB ratio	**65.1%**	62.5%

The group's subsidiary, Network Rail Infrastructure Limited, owns and operates Britain's rail network under licence from the ORR. The licence imposes conditions on the company with regard to its net debt. Should the value of the company's qualifying net debt exceed 75 per cent of the ORR's RAB then the ORR will be formally notified.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

26. Funding and financial risk management continued

Summary table of financial assets and liabilities

The following table presents the carrying amounts and the fair values of the group's financial assets and liabilities at 31 March 2013 and 2012.

The fair values of the financial assets and liabilities are recorded at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values where balances were not already held at fair value:

- Bank loans – based on market data at the balance sheet date and the net present value of discounted cash flows
- Certain bonds issued under the Debt Issuance Programme – based on market data at the balance sheet date. Where market data is not available valuations have been obtained from dealing banks.

For cash and cash equivalents, finance lease receivables, trade and other payables and trade and other receivables, fair value equates to carrying value.

Group	2013 Carrying value £m	2013 Fair value £m	2012 Carrying value £m	2012 Fair value £m
Financial assets				
Cash and cash equivalents	**3,506**	**3,506**	1,886	1,886
Other non-derivative financial assets				
Finance lease receivables	**5**	**6**	6	6
Trade and other receivables (less prepayments and accrued income and other taxation and social security)	**451**	**451**	372	372
Derivatives				
Derivatives designated as cash flow hedging instruments	**579**	**579**	490	490
Derivatives designated as fair value hedging instruments	**217**	**217**	26	26
Other derivatives	**157**	**157**	157	157
Total derivatives	**953**	**953**	673	673
Total financial assets	**4,915**	**4,916**	2,937	2,937
Financial liabilities				
Financial liabilities held at amortised cost				
Obligations under finance leases	**–**	**–**	**(1)**	**(1)**
Commercial paper	**(30)**	**(30)**	**–**	**–**
Bank loans	**(666)**	**(868)**	(967)	(1,130)
Bonds issued under the Debt Issuance Programme	**(32,462)**	**(35,268)**	(27,799)	(33,892)
Financial liabilities designated as fair value through profit and loss				
Bonds issued under the Debt Issuance Programme	**(316)**	**(316)**	(320)	(320)
Total borrowing	**(33,474)**	**(36,482)**	(29,087)	(35,343)
Trade and other payables at amortised cost	**(3,436)**	**(3,436)**	(2,835)	(2,835)
Derivatives				
Derivatives designated as cash flow hedging instruments	**(192)**	**(192)**	(263)	(263)
Derivatives designated as fair value hedging instruments	**–**	**–**	(122)	(122)
Other derivatives	**(439)**	**(439)**	(823)	(823)
Total derivatives	**(631)**	**(631)**	(1,208)	(1,208)
Total financial liabilities	**(37,541)**	**(40,549)**	(33,130)	(39,386)

26. Funding and financial risk management continued

Derivatives

The group (including the group's special purpose financing company, Network Rail Infrastructure Finance PLC) uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The group does not use derivative financial instruments for speculative purposes. Certain derivatives are designated as hedges, and those derivatives that are not hedge accounted are fair valued immediately through the income statement. The group has a comprehensive risk management process.

The board, through a treasury sub-committee (the treasury committee), has approved and monitor the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures.

The use of derivative instruments can give rise to credit and market risk. Market risk is the possibility that future changes in foreign exchange rates and interest rates may make a derivative more or less valuable. Since the group uses derivatives for risk management, market risk relating to derivative instruments will principally be offset by changes in the valuation of the underlying assets, liabilities or transactions being hedged.

Credit risk

The credit risk for all classes of derivative financial instruments and other funds is limited because counterparties are banks with high credit ratings assigned by international credit rating agencies. The treasury committee authorises the policy for setting counterparty limits based on credit ratings. The group spreads its exposure over a number of counterparties, and have strict policies on how much exposure can be assigned to each counterparty. The concentration and amount of the group's investments varies depending on the level of surplus liquidity the group chooses to hold at any point in time. However, because of the strict criteria governing counterparty suitability the risk is mitigated. The treasury committee also authorises the investment and borrowing instruments that can be used.

For debt designated as fair value through profit and loss (FVTPL) there has been no change in carrying value as a result of changes in own credit risk. The gains in the income statement arising from the remeasurement of FVTPL debt items of £3m (2012: £8m loss) are all attributable to changes in market risk.

The credit risk with regard to all classes of derivative financial instruments entered into before 1 January 2013 is limited because Network Rail has arrangements in place which limit each bank to a threshold (based on credit ratings), which if breached requires the bank to post collateral in cash or eligible securities. The members of the banking group are required to post collateral on positive mark to market swaps above the threshold. In December 2012 the group entered into new collateral agreements in respect of derivative trades entered into after 1 January 2013. Under the terms of the new agreements Network Rail will, for the first time, post collateral on adverse net derivative positions with its counterparties. The new agreements do not contain a provision for thresholds and Network Rail or its counterparties are required to post collateral for the full fair value of net out of the money positions. At 31 March 2013 the fair value of collateral held was £404m (2012: £81m). The group is the beneficial owner of this collateral. The group is free to invest or otherwise utilise the collateral at its discretion, subject to acting within the authority sanctioned by the Treasury Committee.

Receivables consist of a small number of counterparties. The group does not have any significant credit risk exposure to any single counterparty and has considered the creditworthiness of debtors. For further detail on the credit-worthiness of customers and suppliers, see Notes 17 (Trade and other receivables) and 18 (Trade and other payables).

The group considers its maximum exposure to credit risk to be the sum of its financial assets as set out on page 128 .

Foreign exchange risk

Network Rail is exposed to currency risks from its investing, financing and operating activities. Foreign exchange risk for all currencies is managed by the use of forward exchange contracts and currency swaps to limit the effects of movements in exchange rates on foreign currency denominated liabilities.

It is estimated that a general increase of 10 percentage points in the value of any currency against sterling would have no material effect on the group or company's profit before tax or equity due to all currency positions being 100 per cent hedged and therefore no sensitivity analysis is produced.

26. Funding and financial risk management continued

Interest rate and inflation risk

The group is exposed to changes in interest rates as funds are borrowed at both fixed and floating interest rates. The hedging strategy approved by the treasury committee defines the appropriate mix between fixed and floating borrowings. Cross-currency and interest rate swap contracts are used to manage the fixed/floating ratio.

Debt with a carrying value of £30,424m (2012: £27,744m) is arranged at or swapped into fixed interest rates and exposes the group to fair value interest rate risk. Other borrowings were arranged at or swapped into floating rates, thus exposing the group to cash flow interest rate risk.

The group has notional values of £1,100m (2012: £2,600m) of forward starting interest rate swaps which hedge Control Period 4. The average rate on these swaps is 4.97 per cent (2012: 5.06 per cent). At the balance sheet date the Group had entered into forward starting interest rate swaps with a notional value of £3,800m to partially hedge the refinancing of debt in CP5. The average fixed rate of these swaps is 2.35 per cent. The group settled its remaining real rate swaps and gilt locks during the year. At the end of the prior year the group held real rate swaps with notional value of £100m and average real rate of -0.30 per cent and gilt locks with notional values of £747m and average real rate of 1.93 per cent.

The group has certain debt issuances which are index-linked and so are exposed to movements in inflation rates. The group does not enter into any derivative arrangements to hedge its exposure to inflation in relation to its index-linked debt, but rather to mitigate the effects of inflation on the group's retail price index-linked revenue streams.

Sensitivity analysis

This sensitivity analysis has been determined based on the exposure to interest rates and inflation for both derivative and non-derivative financial instruments at the balance sheet date. A one per cent increase or decrease represents management's assessment of the reasonably possible changes in average interest rates and inflation.

	Group 31 March 2013		Group 31 March 2012	
	Impact on the income statement £m	**Impact on equity £m**	Impact on the income statement £m	Impact on equity £m
1% increase in the interest rate	**147**	**50**	156	73
1% increase in the GBP RPI on index linked bonds	**(157)**	**–**	(218)	–

A one per cent decrease in the above rates would have an equal and opposite effect.

Interest rate sensitivities have been calculated by comparing the average rates of the derivative financial instruments to the market rate for similar instruments.

The impact of a change in GBP RPI has been calculated by applying a change of one per cent to the RPI at the balance sheet date to the carrying value of the index linked bonds.

The group believes that the above analysis is unrepresentative of the risks inherent in issuing index-linked debt. Franchised track access and grant income constitute £5,893m (2012: £5,706m) of revenue which is far in excess of an index-linked interest expense of £217m (2012: £185m). Currently, these sources of income are contractually index-linked and, whilst there is no absolute contractual guarantee for future regulatory control periods that this will continue, the group is highly confident that this will continue to be the case. Therefore, the natural hedge that exists between finance costs and revenue mitigates the risk of RPI movements.

During the year the group issued £905m of index-linked bonds, maintaining the proportion of index-linked debt to nominal debt within the ratio set by the treasury committee.

26. Funding and financial risk management continued

Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the board of directors. The policy manual ratified by the treasury committee includes an appropriate liquidity risk management framework covering the group's short, medium and long-term funding and liquidity management requirements. Treasury is subject to regular internal audits. Treasury provides sufficient liquidity to meet the group's needs, while reducing financial risks and prudently maximising interest receivable and credit risk on surplus cash.

The group manages liquidity risk by maintaining sufficient cash and facilities to cover at least one year's working capital requirement by continuously monitoring forecast and actual cash flows. Included in Note 19 is a description of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

The following table details the group's remaining contractual maturity for their financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay and, therefore, differs from both the carrying value and the fair value. The table includes both interest and principal cash flows.

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
31 March 2013					
Non-derivative financial liabilities					
Bank loans and overdrafts	**239**	**9**	**37**	**533**	**818**
Bonds issued under the Debt Issuance Programme					
– Sterling denominated DIP bonds	**1,543**	**1,765**	**2,982**	**5,989**	**12,279**
– Sterling denominated index-linked DIP bonds	**213**	**221**	**707**	**40,999**	**42,140**
– Foreign currency denominated bonds	**2,758**	**1,065**	**3,266**	**562**	**7,651**
Trade and other payables	**2,875**	**320**	**–**	**–**	**3,195**
Derivative financial liabilities					
Net settled derivative contracts	**239**	**141**	**38**	**(138)**	**280**
Gross settled derivative contracts – receipts	**(2,758)**	**(1,065)**	**(3,249)**	**–**	**(7,072)**
Gross settled derivative contracts – payments	**2,451**	**1,046**	**2,704**	**–**	**6,201**
	7,560	**3,502**	**6,485**	**47,945**	**65,492**

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
31 March 2012					
Non-derivative financial liabilities					
Bank loans and overdrafts	331	223	37	539	1,130
Bonds issued under the Debt Issuance Programme					
– Sterling denominated DIP bonds	277	1,277	3,169	6,173	10,896
– Sterling denominated index-linked DIP bonds	198	205	658	44,208	45,269
– Foreign currency denominated bonds	969	2,608	2,353	590	6,520
Finance lease liabilities	1	–	–	–	1
Trade and other payables	2,396	189	–	–	2,585
Derivative financial liabilities					
Net settled derivative contracts	537	126	82	(57)	688
Gross settled derivative contracts – receipts	(970)	(2,607)	(2,353)	(590)	(6,520)
Gross settled derivative contracts – payments	1,006	2,516	2,203	417	6,142
	4,745	4,537	6,149	51,280	66,711

26. Funding and financial risk management continued

Cash flow hedges

Contractual payments on derivatives designated as cash flow hedges impact the income statement and will all have matured within the next 10 years.

Borrowings

Details of the group's undrawn committed facilities and types of debt instrument used can be found in Note 19.

Fair value measurements recognised in the statement of balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2013			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Derivative financial assets	**–**	**953**	**–**	**953**
Financial liabilities at FVTPL				
Derivative financial liabilities	**–**	**(631)**	**–**	**(631)**
Financial liabilities designated at FVTPL	**(316)**	**–**	**–**	**(316)**
	(316)	**(631)**	**–**	**(947)**
Total	**(316)**	**322**	**–**	**6**

There were no transfers between Level 1 and 2 during the year.

	2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Derivative financial assets	–	673	–	673
Financial liabilities at FVTPL				
Derivative financial liabilities	–	(1,208)	–	(1,208)
Financial liabilities designated at FVTPL	(320)	–	–	(320)
	(320)	(1,208)	–	(1,528)
Total	(320)	(535)	–	(855)

27. Retirement benefit schemes

Defined contribution schemes

On 1 April 2004 the group introduced a defined contribution pension scheme, the Network Rail Defined Contribution Pension Scheme (NRDCPS). This scheme is offered to all new employees of Network Rail, except those who have the legal right to join the Railway Pension Scheme (RPS). Any employee who wishes to transfer from the Network Rail Section of the RPS to the NRDCPS is entitled to do so.

At 31 March 2013, the NRDCPS had 6,668 members (2012: 7,348) and the average employer contribution rate in the year was 5.6 per cent (2012: 5.1 per cent).

Defined benefit schemes

The principal pension scheme in which the group participates is the Railway Pension Scheme (RPS), which was established by statutory instrument, commenced on 1 October 1994 and is a funded defined benefit arrangement. The assets and liabilities under the predecessor scheme, the British Rail 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, the assets of which 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 among 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.

Since 1 April 2004, new members can only join the Network Rail Section of the RPS after completing five years' service. Benefits for existing members and employees joining up to and including 31 March 2004 were not affected by the revised eligibility rules of the Network Rail Section. The group has also announced its decision to cap its contribution to British Railways Additional Superannuation Scheme (BRASS) matching at current levels for existing employees and to dispense with matching for new employees. The company will continue to match regular contributions but will not increase them in cash terms in the future.

On 1 November 2008 Network Rail launched a third pension scheme – the Career Average Revalued Earnings (CARE) scheme, which is available to all employees.

Qualified actuaries Towers Watson have valued the schemes on an IAS 19 basis at 31 March 2013 and 31 March 2012.

The total contribution rate payable under the RPS and the CARE scheme is normally split in the proportion 60:40 between the group and the members. The group reflects its share of the contribution in the financial statements.

The members pay contributions of 14.04 per cent of Section Pay for Pre-July 2012 members and 10.5 per cent of RPS 2012 Section Pay for RPS 2012 members (2012: 11.6 per cent by all members). The group pays contribution rate of 21.8 per cent of Section Pay for Pre-July 2012 members and 16.1 per cent of RPS 2012 Section Pay for RPS 2012 members (2012: 17.4 per cent for all members). In addition the group paid a lump sum of £5m to the RPS Section during the period. The equivalent rates for the CARE scheme are 10.9 per cent for member contributions and 7.9 per cent for Group contributions.

If a surplus or deficit arises, the provisions in the rules mean that the group and members benefit from or pay for this respectively in the proportion 60:40.

	2013 %	2012 %
Key assumptions used:		
Discount rate	**4.4**	5.2
Expected return on equity assets	**n/a**	6.7
Expected return on Government bond assets	**n/a**	3.1
Expected return on non-Government bond assets	**n/a**	4.1
Expected return on property assets	**n/a**	6.3
Expected rate of price inflation	**3.2**	3.2
Future earnings increases*	**4.3**	4.2
Future pension increases – RPS	**2.5**	2.2
Future pension increases – CARE	**3.3**	3.2

* Inclusive of a promotional salary scale of 0.5 per cent per annum. From 31 March 2012 promotional salary increases are assumed to apply only in respect of service after the date of promotion.

27. Retirement benefit schemes continued

	2013 Males	2013 Females	2012 Males	2012 Females
Average life expectancy for mortality tables used to determine defined benefit obligations:				
– Member aged 65 now (pension under £9,300 pa or pensionable pay under £35,000 pa)	**20.6**	**22.5**	20.5	22.4
– Member aged 65 now (others)	**22.8**	**24.9**	22.6	24.8
– Member aged 65 in 20 years' time (pension under £9,300 pa or pensionable pay under £35,000 pa)	**23.0**	**25.0**	22.8	24.9
– Member aged 65 in 20 years' time (others)	**25.0**	**27.3**	24.9	27.1

Amounts recognised in income in respect of the group's pension arrangements are as follows:

	2013 £m	2012 £m
Current service cost – defined contribution (see Note 6)	**12**	14
Current service cost – defined benefit (see Note 6)	**119**	119
Interest cost	**153**	150
Expected return on scheme assets	**(139)**	(147)
Past service cost	**–**	(74)
	145	62

In the prior year it was agreed that future pensionable pay increases on past service benefits in the section will be capped at RPI plus 0.5 per cent each year. In addition, promotional salary increases of 0.5 per cent per annum are assumed to only apply in respect of service after the date of promotion. This has resulted in a past service cost adjustment in the prior year, which is included in the income statement.

The current and past service costs have been included in employee costs, the expected return on scheme assets less interest on liabilities has been included in finance costs.

Amounts recognised in the statements of comprehensive income in respect of the group's pension arrangement are as follows:

	2013 £m	2012 £m
Loss on defined benefit obligation	**665**	150
(Gain)/loss on scheme assets	**(87)**	95
Total loss recognised in the statements of comprehensive income	**578**	245

The cumulative amount of actuarial losses recognised in other comprehensive income was £1,016m (2012: £438m).

The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit schemes is as follows:

	2013 £m	2012 £m
The defined benefit obligation is made up as follows:		
Active members	**(3,949)**	(3,002)
Deferred pensioner members	**(542)**	(375)
Retired members	**(1,738)**	(1,408)
Present value of defined benefit obligation	**(6,229)**	(4,785)
Fair value of scheme assets	**4,117**	3,683
Deficit in the scheme	**(2,112)**	(1,102)
Company's share (60%) of the scheme deficit recognised in the balance sheet	**(1,267)**	(661)

This amount is presented as a non-current liability in the balance sheet.

Cumulative gains or losses are recognised in equity.

27. Retirement benefit schemes continued

Movements in the present value of retirement benefit scheme obligations (including members' share) in the current year were as follows:

	2013 £m	2012 £m
At 1 April	**(4,785)**	(4,327)
Current service cost including members' share	**(206)**	(208)
Interest cost	**(256)**	(250)
Section amendment (past service cost adjustment)	**–**	123
Benefit payments	**126**	127
Actuarial gains and losses	**(1,108)**	(250)
At 31 March	**(6,229)**	(4,785)

Movements in the present value of fair value of retirement benefit scheme assets (including members' share) in the current year were as follows:

	2013 £m	2012 £m
At 1 April	**3,683**	3,519
Expected return on scheme assets	**232**	245
Actuarial gains and losses	**144**	(159)
Contributions from scheme members	**67**	74
Contributions from employer	**117**	131
Benefit payments	**(126)**	(127)
At 31 March	**4,117**	3,683

The actual return on scheme assets was £376m (2012: £86m).

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return		Fair value of assets		Per centage of assets	
	2013 %	2012 %	2013 £m	2012 £m	2013 %	2012 %
Equity instruments	**n/a**	6.7	**3,579**	2,933	**86.93**	79.64
Debt instruments – Government	**n/a**	3.1	**250**	243	**6.08**	6.60
Debt instruments – non-Government	**n/a**	4.1	**162**	210	**3.93**	5.70
Property	**n/a**	6.3	**96**	277	**2.33**	7.52
Other	**n/a**	2.5	**30**	20	**0.73**	0.54
			4,117	3,683		

The expected return on assets assumption was determined as the average of the expected returns on the assets held on the accounting date. The rates of return for each class are set out in the table above and were determined as follows:

- Equities and property: the rate adopted is consistent with the median assumption used in Towers Watson's Asset Liability Modelling work
- Bonds: the overall rate has been set to reflect the yields on the bond holdings
- Other assets: this class is mostly made up of cash holdings and the rate adopted reflects current short-term returns on such deposits.

27. Retirement benefit schemes continued

Actuarial assumption sensitivity

The discount rate is set by reference to market conditions at the reporting date, and can vary significantly between periods.

The mortality assumptions used are set by considering the experience of the scheme's members, and by making an allowance for possible future improvements in longevity. Mortality assumptions are difficult to set accurately, and forecasting rates of future mortality improvement is inevitably speculative.

The following table shows the effect of changes in these assumptions upon the defined benefit obligation:

	2013 £m	2012 £m
Discount rate		
Change in defined benefit obligation at year end from a 25 basis points increase	**(266)**	(201)
Change in defined benefit obligation at year end from a 25 basis points decrease	**280**	211
Mortality		
Change in defined benefit obligation from a one year increase in longevity	**162**	105
Change in defined benefit obligation from a one year decrease in longevity	**(174)**	(115)

The history of experience adjustments is as follows:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligations	**(6,229)**	(4,785)	(4,327)	(4,802)	(3,317)
Fair value of scheme assets	**4,117**	3,683	3,519	3,160	2,211
Deficit in the scheme	**(2,112)**	(1,102)	(808)	(1,642)	(1,106)
Company's share (60 %) of the scheme deficit recognised in the balance sheet	**(1,267)**	(661)	(485)	(985)	(664)
Experience adjustments on scheme liabilities					
Amount (£m)	**(36)**	(65)	64	32	151
Percentage of scheme liabilities	**(0.58%)**	1.36 %	1.48 %	0.67 %	4.55 %
Experience adjustments on scheme assets					
Amount (£m)	**87**	(95)	36	396	(631)
Percentage of scheme assets	**2.11%**	(2.58 %)	1.02 %	12.53 %	(28.54) %

The estimated amounts of contributions expected to be paid by the group and members to the scheme during the year ending 31 March 2014 are £125m and £67m, respectively.

Revised International Financial Reporting Standard

The revised International Financial Reporting Standard IAS 19 *Employee Benefits* will come into effect in the year ending 31 March 2014. One of the effects of the revised standard will be the replacement of interest cost and expected return on plan assets with a net interest income or cost on the liability recognised on the balance sheet. This net interest income or cost is measured based on the plan's discount rate. Had the revised standard been applied in the year ending 31 March 2013 it would have resulted in a charge to the income statement of £173m rather than the £145m recorded in the year.

Company information

Calendar 2013/14

31 March 2013	Year end
6 June 2013	Preliminary results announced for full year to 31 March 2013
18 July 2013	Annual general meeting of Network Rail Limited
21 November 2013	Results for half-year announcement to 30 September 2013
31 March 2014	Year end

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June 2013