

NETWORK RAIL GROUP

TAX STRATEGY

&

TAX RISK MANAGEMENT



Network Rail Group Tax Strategy
March 2018

1.0 Introduction

The Network Rail Group is an arm's length body of Central Government and is a part of the Department for Transport. The Group is subject to all taxation in the UK in respect of all of its business activities.

This document sets out Network Rail Group's strategy and approach to conducting its tax affairs and dealing with tax risk.

The document has been approved by the Board of Network Rail Group.

The document will be periodically reviewed by the Group Tax team ("GT") and any amendments will be approved by the Board of Network Rail Group. It is effective for the year commencing 1 April 2018.

The GT partners work with our businesses to ensure that;

- The strategy is adopted and followed consistently across the Group with clear lines of responsibility and accountability;
- There is alignment of the strategy with Network Rail Group's overall approach to corporate governance and risk management, and;
- Network Rail Group pays the right amount of tax required of it under the laws and regulations of the countries in which it operates.

2.0 Network Rail Group Tax Strategy

Network Rail Group is committed to conduct its tax affairs consistent to the following objectives, to:

- Comply with all relevant laws, rules, regulations, reporting and disclosure requirements in all jurisdictions in which the Group operates;
- Ensure that the tax strategy is at all times consistent with the Group's overall strategy, its approach to risk and the Group's core values;
- Apply professional diligence and care in the management of all risks associated with tax matters and ensure governance and assurance procedures are appropriate;
- Ensure that sufficient technically able and experienced professional resource is engaged within the Group so that all tax requirements and risks are capably met;
- Foster constructive, professional and transparent relationships with all tax authorities based on the concepts of integrity, collaboration and mutual trust;
- Network Rail Group will use any Government incentives and legislative reliefs to minimise the tax costs of conducting its business activities but will not use them for purposes which are knowingly contradictory to the intent of the legislation. Further, the Group will not pursue any schemes or structures that have been devised merely to reduce the Group's overall taxation liability.

3.0 Group Tax Code of Conduct

3.1 Introduction

The Group Tax Code of Conduct (“COC”) outlines the principles setting out how Network Rail tax professionals are expected to operate with respect to tax matters in support of the above Group Tax Strategy. It endeavours to guide the role of tax professionals within the Group, their key responsibilities, their professional conduct and their approach to working relationships with external parties.

3.2 Compliance with Laws, Rules and Regulations

Network Rail Group is committed to observing all applicable laws, rules, regulations, reporting and disclosure requirements wherever there is a requirement to do so as a result of our business presence and transactions and paying the relevant tax liabilities.

3.3 Responsibilities and Professional Conduct

Group Tax professionals will aim to:

- Effectively manage risk by application of the tax risk strategy;
- Observe all applicable laws, rules, regulations, reporting and disclosure requirements;
- Apply diligent professional care and judgement to arrive at well-reasoned conclusions;
- Ensure all decisions are taken at an appropriate level and supported with documentation that evidences the facts, conclusions and risks involved;
- The Group aims for certainty on tax positions it adopts but when the law is unclear or subject to interpretation, written advice or confirmation will be sought as appropriate from either external professional advisors or directly with the relevant tax authority, to ensure that our position would more likely than not be settled in the Group’s favour;
- Develop and foster good working relationships with tax authorities, government bodies and other related third parties;
- Undertake all dealings with tax authorities, government officials, ministers and other third parties in a professional, courteous and timely manner;
- Be compliant with all anti-bribery legislation;
- Consider all HMRC consultative documents with a view to providing a response where the business of Network Rail Group is impacted.

3.4 Disclosure and Commercial Implications

All transactions undertaken by Network Rail Group will be driven by necessary commercial requirements and never by reference to the amount of taxation that may arise and / or be saved by the Group.

The Group’s reputation, brand, corporate and social responsibilities must be considered when considering initiatives that incorporate a tax element as well as the applicable legal and fiduciary duties of directors and employees of the Group and will form a part of the overall decision and risk assessment process.

4.0 Tax Risk Management

Network Rail Group's appetite for tax risk is low and the Group is accredited by HMRC to be of a low tax risk.

Day to day monitoring of the Group's tax affairs is provided by GT who constantly review process and systems to ensure compliance with all taxation legislation. Overall risk is managed through systems and controls in place together with review and oversight by senior management and ultimately, the Board.

A quarterly review of the identified tax risks is undertaken by GT as a part of the Group's Enterprise Risk Review process. This identifies taxation risks, outlines any necessary remediation and the progress within a set timeframe as well as any potential financial impact. This is escalated to senior management for review. Tax risks may arise at any time due to the nature of the Group's business, particularly the need to deliver large and complex projects, managing estates and land and through being a large employer. Potential risks are identified and controlled by systems and frameworks in place, which are regularly reviewed at all levels of management and subject to the annual Senior Accounting Officer review noted below.

The annual Senior Accounting Officer process is undertaken annually by GT to review all tax reporting procedures and systems are correctly in place and working to ensure correct reporting of all taxation obligations to HMRC. The Group's financial control framework requires all policy owners to have designed processes that are compliant with tax legislation. Any weaknesses and / or errors found during the review are escalated to the relevant policy owners for remediation. GT will liaise with the policy owners to ensure the remediation is actioned and that going forward, the reporting procedures are correct.

If the taxation position of any aspect of the business of the Group is unclear, GT will liaise with external advisors and HMRC to ensure that certainty is obtained in assessing the tax position to the maximum extent possible.

GT will work closely and in collaboration with its business partners and provide support and technical advice to all areas of the business, either as a result of changes in the businesses or changes in legislation to minimise any tax risk arising from these issues.

GT should always be made aware of any business transactions which may have a tax impact (such as a property disposal, acquisition of a business etc.) by its business partners at an early stage so that the correct and relevant taxation implications are made aware to the business and so as to avoid the creation of a risk.

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