

Network Rail Infrastructure Limited
Regulatory Financial Statements

Year ended 31 March 2010

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Directors' Review

These regulatory financial statements mark the end of the first year of Control Period 4 (CP4). The Group has made good progress in the year and has delivered a set of operating results that are in line with the business plan (the *CP4 Delivery Plan*) published in March 2009.

Network Rail, in common with most regulated utilities, operates in a complex environment. Each five yearly settlement allows the Office of Rail Regulation (ORR) and Network Rail to take a fresh look at how much money is needed to deliver the required outputs across the control period.

As part of this settlement Network Rail has cut its charges to its customers, which has resulted in a reduction of around £500m in revenue compared to the prior year. This is possible because of the increasing efficiency and stability of Network Rail which means we need less money to run the railway. This is good news for our customers, passengers and all stakeholders. It is also good news for Network Rail because part of building a sustainable railway is making it more affordable for passengers and freight users.

Network Rail's performance will be judged against the required outputs for CP4. The financial performance of the business is measured by the extent to which it manages within the five year funding deal.

In March 2009 Network Rail published its CP4 Delivery Plan, which set out how Network Rail plans to deliver the outputs for the five-year regulatory settlement at the appropriate cost. This followed a different profile to the regulatory determination, but allowed the business to live within the funding available.

The CP4 Delivery Plan is a useful benchmark for our financial progress as we move through the control period to the extent that Network Rail outperforms the financial targets in the CP4 Delivery Plan, it has generated additional funds that can either be reinvested in the railway or used to reduce debt, and therefore interest costs in future years.

Last year we reported that we exited Control Period 3 slightly behind the ORR efficiency target of 31 per cent at 27 per cent. In setting the CP4 targets the ORR assumed that Network Rail was further ahead on efficiencies than was the case.

The result is that Network Rail will need to save 24 per cent, rather than 21 per cent, across the control period to finish at the same point as the ORR target in 2013/14. The CP4 Delivery Plan Update published in March 2010 set out the path to achieve that target.

Progress to date against the CP4 Delivery Plan

Network Rail is making solid progress in reducing the costs of running the railway, thereby making it more affordable. The business measures its performance against the CP4 Delivery Plan using two key performance indicators (KPIs), *financial value added* and the *cost efficiency measure*. The *financial value added* KPI measures the extent that the company has spent less, in net terms, than the delivery plan on a like for like basis, so deferrals of work are necessarily excluded from this calculation. The *cost efficiency measure* looks at how much the business has saved in the year against the opening cost base.

The *cost efficiency measure* indicated that the Group reduced its running costs by around £265m, when compared to the cost base on 1 April 2009 as shown in the following table. This represents a good start to meeting the tough, cost efficiency target set by the ORR and we are ahead of the CP4 Delivery Plan.

Cost efficiency table 2009-10

£m	Baseline	Actuals	Saving	Saving (%)
Opex (1)	978	959	19	1.9
Maintenance	1,157	1,071	86	7.4
Renewals (2) (3)	2,431	2,271	160	6.6
Total	4,566	4,301	265	5.8

Notes: (1) Cost efficiency measure includes performance amounts at the budget level only so the number in the table above is different to that in Statement 1. (2) Renewal baselines are adjusted for volumes. (3) Renewals expenditure is different to that disclosed in Statement 1 due to different treatment of expenditure deferred from CP3.

By the end of the year the financial value added KPI measured a positive performance of £101m. This means that our activities this year have been at a net cost of £101m less than the delivery plan on a like for like basis. This is a good start, but as each year gets tougher, it is too soon to confirm that it will be sustained over the five-year plan.

The Group performed solidly in the year by having fewer, and less disruptive, possessions, lower financing costs than anticipated and more efficient investment delivery, particularly with regard to track and civils.

Statement 1 Summary of regulatory performance

In March 2009, Network Rail published its CP4 Delivery Plan ("the Delivery Plan") which set out how Network Rail plans to deliver the outputs for the five year regulatory settlement. This has a different profile to the PR08 regulatory determination. The table below indicates how the Delivery Plan varies from actuals and the PR08 during 2009-10:

Summary income and expenditure comparison to Delivery Plan and PR08 2009-10

£m	Actual	Delivery Plan	Difference to Delivery Plan	Difference between Delivery Plan and PR08	Difference between actual and PR08
Income	5,817	5,860	(43)	179	136
Expenditure					
Controllable opex	991	976	(15)	(133)	(148)
Non-controllable opex	434	420	(14)	(66)	(80)
Maintenance	1,071	1,099	28	12	40
Schedule 4 & 8	149	177	28	6	34
Renewals	2,304	2,896	592	143	735
Enhancements	1,278	1,606	328	174	502
Financing costs ⁽¹⁾	1,252	696	(556)	493	(63)
Corporation tax	4	1	(3)	1	(2)
Total expenditure	7,483	7,871	388	630	1,018

Notes: (1) The variance to the Delivery Plan is because the CP4 Delivery Plan assumed index linked debt would fall in value through deflation in 2009-10 by £140m. The outturn was that index linked debt rose in value by £347m (see Statement 4) due to positive inflation in the year.

Income

Network Rail generates passenger franchise revenue, revenue grants, freight income, property rental income and open access income from its operations. Income was £5,817m (see Statements 1 & 6a) and was slightly higher than the determination due to a variety of reasons (see Statement 6a).

Property income, mainly from small and medium sized businesses was £99m (Statement 6), less than the determination by 12 per cent. But stations income was assisted by a solid performance from retail units at the major stations. The combined effect was that property income held up relatively well in the recession falling in total by around 4 per cent in the year. Meanwhile property sales activity remained low, as planned.

Expenditure

Network Rail's income is largely fixed by the regulatory regime which means that we place great emphasis on cost efficiency and ensuring that marginal costs are exceeded by marginal income.

Operating costs

Operating costs were £148m higher than assumed in PR08 but in line with the CP4 delivery plan. There are a number of items that make up the difference between PR08 and the 2009-10 performance including the variance in starting position as Network Rail entered the control period. These are set out in Statement 7a.

Staff costs rose at more than the prevailing rate of inflation in the year because of the time lag on staff pay agreements. Average salaries increased by 2.1 per cent. This absorbed the 3.5 per cent pay rise for non-management grades agreed in December 2008, on the basis of prevailing inflation in Autumn 2008. Additional costs were absorbed by freezing managerial salaries and by restructuring.

Non-controllable opex also increased in the year with a rise in EC4T costs and smaller increases in British Transport Police costs and ORR fees.

Maintenance costs

Maintenance costs were in line with PR08 in the year.

This year saw a good performance in maintenance where costs for the year were reduced by 7 per cent or £86m on a like for like basis through a combination of tight cost management, control of headcount, productivity improvements and reductions in waste. Improved management controls and planning led to a reduction in overtime costs and a reduction in the use of labour subcontractors for core work, saving £21m. We have invested in training over recent years and in 2009/10 we have utilised the increased skills of our employees to carry out tasks previously carried out by contractors. We are dedicated to reducing waste. For example, our fleet management team have achieved a significant reduction in vehicle numbers, by 10 per cent, which will lead to financial savings of over £10m.

In the next 12 months we will continue to utilise improved techniques and technology to ensure we can achieve the necessary reductions in costs and continue to improve the safety of the railway for our employees and the general public.

Schedule 4 and 8

The performance regime achieved a positive variance of £34m against the PR08 during the year.

Train performance has a direct effect on the revenue Network Rail receives from its customers. The decline in revenue, from the regulatory settlement, has been partly offset by a strong performance, despite the severe winter weather, in cutting delays to passengers.

The proportion of passenger trains running on time rose to 91.5 per cent, ahead of the required regulatory output of 91.0 per cent and significantly better than last years level of 90.6 per cent. But the unprecedented weather in January meant that punctuality was difficult to deliver that month, and cost the Group over £40m in performance related compensation payment to customers. The severe winter weather caused 40 per cent of the delay minutes in January.

Better planning of investment work meant there were reduced payments to train operators for disruption caused by that work.

Net additional income from CP4 performance and availability (schedule 8 and schedule 4) payments was £5m and £37m respectively (Statement 12), £21m better than assumed in the CP4 Delivery Plan.

Renewals

Network Rail spent £735m less on renewals than assumed in the PR08 and £592m less than the Delivery Plan. This was as a result of deferring work to later in the control period as well as some efficiencies.

Efficiencies were achieved in track, structures and civils renewals. Track work was delivered in house for less, with volumes brought forward from future years. The amounts delivered included approximately 12 per cent more on plain line track and 1 per cent more on switches and crossings.

Civils and structures benefited from better external rates as contractors work with us to drive down costs.

It is noted that Network Rail, as part of the transformation programme, has carried out analysis that supports the sustainable reduction in the scope of asset management (i.e. with no impact on long term funding and outputs). The ORR is currently assessing whether it accepts that these changes are sustainable.

The variance to the Delivery Plan is mostly due to re-profiling of expenditure within the control period although efficiencies have been achieved as well. The following table shows a comparison to the Delivery Plan:

Summary renewals comparison to Delivery Plan and PR08 2009-10

£m	Actual	Delivery Plan	Difference to Delivery Plan	Difference between Delivery Plan and PR08	Difference between actual and PR08
Track	698	705	7	90	97
Structures	353	375	22	27	49
Signalling	411	445	34	46	80
Telecoms	232	326	94	33	127
Electrification	81	120	39	29	68
Plant and machinery	89	141	52	32	84
Operational property	229	274	45	40	85
Other renewals					
Information management	88	120	32	(31)	1
Corporate offices	23	26	3	(8)	(5)
Discretionary investment	42	68	26	38	64
Other miscellaneous	58	296	238	(153)	85
Sub-total other renewals	211	510	299	(154)	145
Total renewals expenditure	2,304	2,896	592	143	735

Track expenditure in the year was lower than the Delivery Plan. This was due to the net impact of re-prioritisation of work between routes and for efficient delivery and delivery of some signalling and crossings efficiencies.

Structures expenditure was lower than the Delivery Plan mainly as result of deferrals of projects and the delivery of some efficiencies.

Signalling expenditure was lower than the Delivery Plan. This is because of a combination of efficiencies delivered and deferral of works whilst more efficient scope and delivery options are developed. This is partially offset by increased costs on some particular schemes.

Telecoms expenditure was lower than the Delivery Plan. The variance is largely due to slippage, some of which will allow work to be achieved at better rates in the future. Adverse weather during the winter also contributed to slippage.

Electrification expenditure was lower than the Delivery Plan. The variance is due a number of schemes being deferred.

Plant and machinery expenditure was lower than the Delivery Plan. The variance is mainly due to deferred expenditure on the high output, ballast cleaner & support plant and the intelligent infrastructure programme.

Operational property expenditure was lower than the Delivery Plan due to some slippage which may allow further efficiencies to be achieved upon delivery.

Information management expenditure was lower than the Delivery Plan due to efficiencies, cancellations and re-phased works.

Other renewals expenditure was lower than the Delivery Plan. This is mainly due to lower expenditure on the West Coast and Efficient Engineering Access programmes.

Enhancements (See statement 3)

Enhancements expenditure was £502m less than PR08 and £328m less than the delivery plan. The variance to the PR08 is set out in statement 3. The variance to the delivery plan was largely due to deferrals, primarily through rephasing of the Thameslink programme.

To take advantage of the growing demand for rail travel Network Rail will deliver enhancements in CP4 to increase the capacity of the network. The Group will deliver a large number of projects during CP4, costing around £8bn in 2009/10 prices as part of the five year funding agreement. This year Network Rail spent £1.3bn in enhancing the network and plans to nearly double this next year.

There has been a significant growth in the number of enhancement projects being delivered in the year. Several hundred projects are in the development stage with the committed outputs being evaluated to enable efficient and timely delivery and in addition there have been many projects delivered on time, on budget and safely. We are on schedule to deliver our control period commitments both in terms of schedule and cost.

Some highlights from the major programmes of work currently under way are:

- Airdrie to Bathgate – a new line being built in Scotland
- the 2012 Programme continues; this includes new lines, new stations, better facilities and new rolling stock on the North London Line and East London Line in addition to works to support and enable the transport links being developed in the Stratford area
- construction has commenced on the Thameslink and Reading projects as part of the transport strategy for London, as well as key development work now underway for Crossrail
- Newport, Gwent station regeneration
- the Birmingham Gateway project to redevelop New Street has attracted a significant amount of third party investment.

There are many other smaller scale enhancements projects that were successfully delivered over the past year such as new car parks and line speed improvements.

Statement 2 GB RAB – regulatory financial position

The Regulatory Asset Base (RAB) has increased from £34.2bn to £35.7bn in the year as set out below:

	£bn
Opening RAB	34.2
Inflation	0.1
Renewals & enhancements	3.5
Ring Fenced Fund	(0.5)
Amortisation	(1.6)
Closing RAB	35.7

The method of calculating the RAB has become significantly more complex in CP4. The additional complexity is to allow the RAB to take account of deferring and bringing forward work and changes in the input price indices. At the end of CP4 the calculation will also include an assessment of the non-delivery of outputs. The RAB is provisional until the end of the control period.

The start position in CP4 was amended from the closing position in CP3 in line with the incentive mechanism outlined in the Access Charge Review 2003 and other agreements made at the time of the deferral of revenue grants, by the following items:

- rewards for improving asset condition and for increasing passenger volumes (£1bn),
- revenue grants deferred from years 1 and 2 of CP3 (£3.7bn),
- less, reductions in the RAB to allow expenditure to rollover into CP4 and other adjustments. (£0.4bn)

Statement 4: Net debt and financing ratios

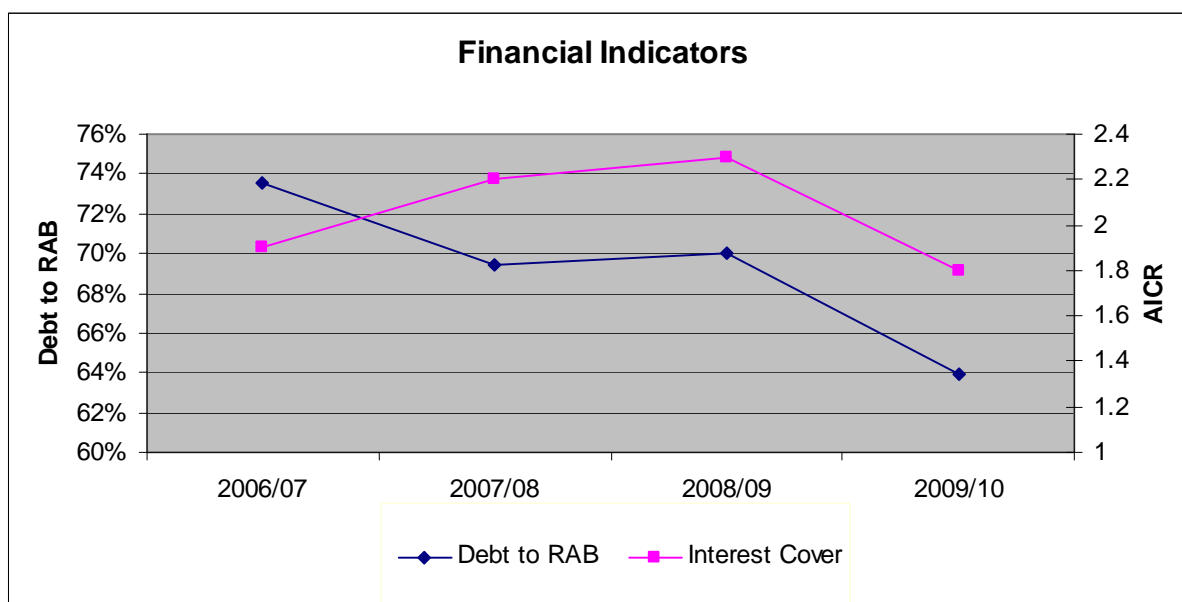
Closing debt was £1.2bn less than assumed in the regulatory determination.

During the year ended 31st March 2010 Network Rail raised £3.8bn of bonds under the Debt Issuance Programme (DIP). These bonds were made up of £3.1bn of long dated inflation linked bonds and a single US dollar nominal bond. Part of this new debt was used to pay back existing loans. As a result regulatory net debt rose from £20.9bn to £22.8bn.

The Group benefits from the financial indemnity mechanism (FIM) from the Secretary of State for Transport, for which £174m was paid in 2009/10. The movement in regulatory debt is summarised below:

	£bn
Opening net debt	20.9
Total income	(5.8)
Total expenditure	6.2
Interest Costs	0.7
FIM fee	0.2
Capital Accretion	0.3
Changes to the definition of regulatory net debt	0.3
Closing net debt	22.8

Network Rail manages its interest and foreign exchange risk by using derivative financial instruments (hedges). Debt and interest charges are stated in these accounts at their hedged rate.



The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels.

A ratio of less than 100 per cent indicates the RAB is worth more than the debt raised to finance investment expenditure and that the business has a buffer to absorb unplanned net

costs. The debt to RAB ratio for the year was 63.9 per cent which was better than the CP4 Delivery Plan forecast of 64.0 per cent. This is higher than the PR08 estimate of 62.5% because the PR08 estimate assumed a higher level of RAB inflation in the year and a lower level of capital accretion into index linked debt.

The ORR imposes regulatory limits on this gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utilities face. The gearing ratio is within the limit in the revised licence condition of 70 per cent.

The Group's adjusted interest cover ratio (AICR) is a measure of the Group's ability to pay interest on its debt after taking into account all running costs including steady state renewals. Network Rail's AICR for the year was 1.77 which is better than both the business plan and the ORR determination.

This demonstrates that the level of interest payable is affordable because the business generated operational revenue 77 per cent greater than the cash required to pay its net financing costs.

Looking forward

Targets have been achieved, efficiencies have been made and enhancements have been delivered this year, but in many ways 2010/11 will be the critical year in the successful delivery of the CP4 plan.

We must deliver a number of key improvements in the next year including the next phase of the re-organisation of maintenance (which will help deliver our ongoing maintenance activities both safely and efficiently) and a stepping up in the delivery of the enhancement programme from £1.3bn to £2.5bn.

As noted above, expenditure on renewals and enhancements has been significantly lower than the PR08 determination and also Network Rail's Delivery Plan. In March 2010, Network Rail published an updated Delivery Plan to detail income and expenditure plans for the remainder of the control period. This document acknowledged the lower levels of capital expenditure compared to the original Delivery Plan and outlined how the short fall was to be caught up in the remaining years of the control period. This is shown in the tables below:

Renewals 09/10 prices

£bn	Actual/ Delivery Plan	ACR03 ⁽¹⁾ / PR08	Difference
FY08/09		0.3	(0.3)
FY09/10	2.3	3.0	(0.7)
FY10/11	2.8	2.5	0.3
FY11/12	2.6	2.2	0.4
FY12/13	2.2	2.0	0.2
FY13/14	2.0	1.9	0.1
Total	11.9	11.9	-

Enhancements 09/10 prices

£bn	Actual/ Delivery Plan	ACR03 ⁽¹⁾ / PR08	Difference
FY08/09		0.1	(0.1)
FY09/10	1.1	1.8	(0.7)
FY10/11	1.5	2.1	(0.6)
FY11/12	1.9	1.6	0.3
FY12/13	1.7	1.4	0.3
FY13/14	1.4	1.2	0.2
Total	7.6	8.2	(0.6)⁽²⁾

Notes: ⁽¹⁾ The capex outturn for the end of CP3 was different to that assumed in the PR08. An amount was deducted from the opening RAB for this (refer to Appendix F) and is only added back to the RAB once the deferred expenditure occurs. This additional expenditure in CP4 over the PR08 is incorporated into the Delivery Plan.

⁽²⁾ This is mostly expenditure on the Thameslink programme which has partially been rephased to CP5.

Significant events subsequent to 31 March 2010

The new Government has agreed with Network Rail that it will reduce spend by £100m over the rest of CP4 on enhancements that offer relatively low value for money. This will include the programme of station enhancements announced in November 2009 and other elements for Network Rail to determine.

Summary

Network Rail has a financial structure that is strong and sustainable and this year represented a good start to the control period. We are slightly ahead on asset condition, performance and efficiency in comparison to our CP4 Delivery Plan. Our enhancement programme is gaining pace, but there is still much to do, and the rate of progress, particularly next year will be the key to our success in this five-year control period.

The director's report and the regulatory financial statements were approved by the Board of Directors on 1 July 2010.

Signed on behalf of the Board of Directors



Iain Coucher (Director)



Patrick Butcher (Director)

Statement of Directors' Responsibilities

The directors are responsible for preparing regulatory financial statements in accordance with Condition 11 of the Network Licence dated 31 March 1994 (modified 1 April 2009), as amended.

In preparing those regulatory financial statements, the directors are required by Condition 11 to:

- prepare the regulatory financial statements in respect of the financial year ended 31 March 2010 and (save as otherwise provided in Condition 11 or the Regulatory Accounting Guidelines) on a consistent basis in respect of each financial year;
- prepare the regulatory financial statements such that, insofar as reasonably practical, the definition of items in primary statements; the valuation of assets and liabilities; the treatment of income and expenditure as capital or revenue; adjustments in respect of the provision, utilisation, depreciation and amortisation of assets and liabilities; and any other relevant accounting policies shall be consistent with:
 - (i) the ORR's valuation of the Regulatory Asset Base for the purpose of determining access charges; and
 - (ii) the Determination Assumptions for the access review periods specified in the Regulatory Accounting Guidelines; (and so that where the presentation of an item in the primary statements departs from the basis for the Regulatory Asset Base or the Determination Assumptions, a reconciliation shall be included by way of a note);
- include, as a primary statement, a statement of regulatory financial performance comparing income and expenditure for the access review periods specified in the Regulatory Accounting Guidelines with the Determination Assumptions;
- include all details reasonably necessary to reconcile items included in the primary financial statements with any corresponding items in annual statutory accounts for the access review periods specified in the Regulatory Accounting Guidelines;
- include narrative explaining the material variances from the previous year and from the Determination Assumptions; and
- include the confirmation required under Condition 3.3 that the licence holder shall provide, from time to time as requested by the ORR and in any event every year in the regulatory financial statements it prepares pursuant to Condition 11, confirmation that, in respect of the financial year to which the statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with Condition 3.1 and (where applicable) with Condition 3.2 and, if so requested by the ORR, evidence in support of that confirmation.

In addition the directors are responsible for selecting suitable accounting policies where these are not directed by Regulatory Accounting Guidelines and for making judgements and estimates that are reasonable and prudent.

The Board of Directors is also required to approve formally the regulatory financial statements by signing the Directors' Review on the regulatory financial statements.

In accordance with the Regulatory Accounting Guidelines the statutory financial statements are included as an attachment to these regulatory financial statements to enable a comparison. It should be noted that these statutory financial statements, which do not form a part of the regulatory financial statements, are covered by a separate audit engagement and opinion and are included for information only.

Independent Auditors' Report to the company and the ORR - Deloitte

We have audited the regulatory financial statements of Network Rail Infrastructure Limited for the year ended 31 March 2010 that are required to be audited, which comprise Statement 1: Summary regulatory financial performance, Statement 2a: RAB – regulatory financial position, Statement 2b: RAB – reconciliation of expenditure, Statement 3: Analysis of enhancement capital expenditure, Statement 4: Net debt and financial ratios, Statement 6a: Analysis of income, Statement 6c: Analysis of income by operator, Statement 7a: Analysis of operating expenditure, Statement 8a(1): Summary analysis of maintenance expenditure, Statement 9a: Summary analysis of renewals expenditure, the accounting policies for Great Britain, Scotland and England & Wales and the related Appendices A, B, C, D, E and F. As set out in the Regulatory Accounting Guidelines, we have not audited the other statements contained within the Regulatory Financial Statements.

This report is made, in accordance with our terms of engagement dated 24 March 2010, solely to the Company and the Office of Rail Regulation ("ORR"), in order to meet the requirement of Condition 11.10 of Network Rail Infrastructure Limited's network licence dated 31 March 1994 as amended on 2 July 2004, 12 April 2007 and 1 April 2009 ("Condition 11"). Our audit work was undertaken so that we might state to the Company and the ORR those matters we are required to state to them by Condition 11 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the ORR for our audit work, for this report or for the opinions we have formed.

Basis of Preparation

The regulatory financial statements are separate from the statutory financial statements and have been prepared under the accounting policies set out herein which differ from International Financial Reporting Standards ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of directors and auditors

The nature, form and content of the regulatory financial statements are determined by the requirements of the ORR. It is not appropriate for the auditors or the directors to assess whether the nature of the information being reported upon is suitable or appropriate for the ORR's purposes. Accordingly, we make no such assessment.

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the regulatory financial statements in accordance with Condition 11 and the Regulatory Accounting Guidelines issued there under in February 2010. Our responsibility, as set out in our terms of engagement, is to audit the regulatory financial statements that are required to be audited in accordance with those terms, relevant International Standards on Auditing (UK & Ireland), and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities', Condition 11 and the Regulatory Accounting Guidelines.

We report to you our opinion as to whether the regulatory financial statements that are required to be audited present fairly the regulatory financial performance of Network Rail Infrastructure Limited for the year ended 31 March 2010 and the regulatory financial position as at that date in accordance with the requirements of Condition 11 and the Regulatory Accounting Guidelines and have been prepared in accordance with those same requirements. We also report to you if, in our opinion, the Company has not kept proper accounting records, the regulatory financial statements that are required to be audited are not in agreement with the underlying accounting records and regulatory returns, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Review and the statements not required to be audited and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory financial statements that are required to be audited.

Basis of audit opinion

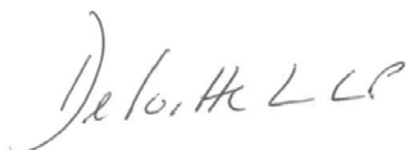
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements that are required to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements that are required to be audited. It does not include an assessment of whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the Regulatory Accounting Guidelines. Where the Regulatory Accounting Guidelines do not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the regulatory financial statements that are required to be audited are consistent with those used in the preparation of the statutory financial statements of Network Rail Infrastructure Limited.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements that are required to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated whether the presentation of information in the regulatory financial statements that are required to be audited was adequate overall to comply with the Regulatory Accounting Guidelines.

Our opinion on the regulatory financial statements that are required to be audited is separate from our opinion on the statutory financial statements of the Company on which we reported on 3 June 2010, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditors' report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Opinion

In our opinion the regulatory financial statements that are required to be audited fairly present, in accordance with the Regulatory Accounting Guidelines, the regulatory financial performance of Network Rail Infrastructure Limited for the year ended 31 March 2010 and the Regulatory Asset Base as at that date, and have been prepared in accordance with the requirements of Condition 11 and the Regulatory Accounting Guidelines.



Chartered Accountants
London, United Kingdom
1 July 2010

Accounting Policies

Basis of preparation

Regulatory financial statements are required to be prepared by Network Rail Infrastructure Limited under the terms of its Network Licence dated 31 March 1994, as amended ("the Licence"). The form of the regulatory financial statements is specified in Condition 11 of the Licence and the statements must be prepared in accordance with detailed Regulatory Accounting Guidelines issued by ORR under Condition 11 in February 2010.

The accounting policies adopted in presenting these regulatory financial statements are consistent with the Regulatory Accounting Guidelines issued by the ORR in February 2010. These are consistent with those detailed in the Company's statutory financial statements for the year ended 31 March 2010 which were approved by the Directors on 3 June 2010 (and will be filed with the Registrar of Companies in July 2010) with the following exceptions:

Inflation

Each year the opening Regulatory Asset Base ("RAB") is inflated to bring its valuation up to current prices. The statutory accounts are prepared on an historical cost basis modified to include fixed assets at valuation and no adjustment is made to opening balances at the start of each financial year to reflect inflation.

Depreciation and amortisation

In the statutory accounts the average railway network fixed asset valuation is depreciated on a straight line basis over its estimated remaining weighted average useful economic life (currently 30 years). No depreciation is provided in these regulatory financial statements. The RAB is amortised as detailed in the ORR Periodic Review 2008. The opening RAB at 1 April 2009 is subject to amortisation based on the average long-run steady state capital expenditure as determined by the ORR.

Reactive works on structures and operational property

Certain reactive and cyclical works on structures and operational property are recorded in the Periodic Review 2008 as renewals. Therefore, in the regulatory financial statements they have been disclosed as renewals to give the most appropriate comparison with the Periodic Review 2008. In the statutory accounts, such amounts are recorded as maintenance within operating costs as they do not represent capital expenditure in accordance with IAS 16 *'Property, Plant & Equipment'*.

Debt

In accordance with the RAGs Annex D Licence Condition 3, debt is calculated by reference to the principal amount outstanding of any such financial indebtedness. No mark to market value is used to calculate its amount. Where financial indebtedness is denominated in a foreign currency, hedged by a derivative, the principal amount is calculated by reference to the sterling amount payable under the relevant derivative.

Interest

Interest in the accounts is calculated in a manner consistent with the method of debt calculation outlined in the RAGs Annex D Licence Condition 3. This means that for any debt which is hedged (to manage foreign currency or interest rate risk) the interest is calculated on the sterling amount payable under the relevant derivative.

Capitalised interest

Interest is capitalised into the cost of projects in the statutory accounts in accordance with IAS 16 *'Property, Plant & Equipment'* and IAS 23 *'Borrowing Costs'*. In the regulatory financial statements capitalised interest is excluded from all balances and where appropriate capitalised financing is added in the calculation of the RAB.

Accounting Policies continued

Turnover

For regulatory financial statements purposes, income does not include schedule 4 & 8 performance amounts, but does include the access charge supplement. Also, income in the regulatory financial statements includes profit on the disposal of properties. In the statutory accounts, profit on the sale of properties is shown as a separate item in the Income Statement to comply with IAS1 *Presentation of Financial Statements*.

Basis of disaggregation

No segmental analysis is provided in the statutory financial statements because Network Rail operates one class of business, that of managing the national rail infrastructure, and undertakes that class of business in one geographic location, Great Britain and is outside the scope of IFRS 8 '*Operating Segments*'.

However, a proportion of Network Rail's expenditure on operating, maintaining, renewing and enhancing the network is directly attributable to specific geographical areas, including Scotland. Other costs are incurred centrally. In previous years these costs were allocated in line with metrics supplied in the Regulatory Accounting Guidelines. The Regulatory Accounting Guidelines for 2010 stated that the rules for allocating these costs were for Network Rail to establish. These costs have been allocated to Scotland using proportions in line with prior years' actual results

Statement 1: GB Summary regulatory financial performance

In £m 2009-10 prices unless stated otherwise

	Actual	PR08	Difference
Income	5,817	5,681	136
Expenditure			
Controllable opex	991	843	(148)
Non-controllable opex	434	354	(80)
Maintenance	1,071	1,111	40
Schedule 4 & 8	149	183	34
Renewals	2,304	3,039	735
Enhancements	1,278	1,780	502
Financing costs	1,252	1,189	(63)
Corporation tax	4	2	(2)
Total expenditure	7,483	8,501	1,018

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year. In March 2009, Network Rail published its CP4 Delivery Plan ("the Delivery Plan") which set out how Network Rail plans to deliver the outputs for the five year regulatory settlement at the appropriate cost. This has a different profile to the PR08 regulatory determination but allowed the business to live within the funding available. A comparison to the Delivery Plan is included in the Director's review.
- (2) Controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (3) Non-controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (4) Schedule 4 & 8 – the variance was mainly due to better planning and improved performance (refer to Statement 12).
- (5) Renewals expenditure is set out in more detail in Statement 9a and is lower than the PR08 mostly due to re-profiling of expenditure within the control period.
- (6) Enhancements expenditure is set out in more detail in Statement 3 is lower than the PR08 mostly due to re-profiling of expenditure within the control period.
- (7) Financing costs represents the interest payable in the year including the £174m Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

Statement 2a: GB RAB - regulatory financial position

In £m 2009-10 prices unless stated otherwise

A) Calculation of the GB RAB at 31 March 2010

	Actual	PR08	Difference
Opening RAB for the year (2006-07 prices) (1)	31,808	31,808	-
Indexation to 2008-09 prices	2,357	2,357	-
Opening RAB for the year (2008-09 prices)	34,165	34,165	-
Indexation for the year	95	95	-
Opening RAB (2009-10 prices)	34,260	34,260	-
Adjustments for the actual capex outturn in CP3 (refer to Appendix F)	(56)	(56)	-
Renewals (added to the RAB)	2,289	3,040	(751)
Enhancements (added to the RAB)	1,254	1,780	(526)
Renewals & Enhancements funded from RFF	(448)	(448)	-
Amortisation	(1,570)	(1,570)	-
Closing RAB at 31 March 2010	35,729	37,006	(1,277)

Note:

(1) This is the CP4 opening RAB as stated in the PR08 final determination.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until the end of the control period and we will continue to have regular discussions around the treatment of capital expenditure with the ORR.
- (2) Renewals – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan is mostly due to re-profiling of expenditure within the control period (refer to Statement 9a).
- (3) Enhancements – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan is mostly due to re-profiling of expenditure within the control period (refer to Statement 3).

Statement 2b: GB RAB - reconciliation of expenditure

in £m 2009-10 prices unless stated otherwise

Movements in 2009-10

	Adjustment	Capitalised financing	Total at 31/03/10	PR08	Difference
Renewals					
Renewals in the determination			2,900	2,900	-
Adjustments to the PR08 determination					
Renewals/enhancement reallocation	(59)	(2)	(61)	(59)	2
CP3 deferrals to CP4	196	5	201	197	(4)
Seven day railway	2	-	2	2	-
Renewals overheads	-	-	-	-	-
Adjusted PR08 determination (renewals)	139	3	3,042	3,040	(2)
Adjustments for the PR08 RAB roll forward policy					
Adjustments for non-delivery of outputs	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(660)	(16)	(676)	-	676
IOPI index adjustments	(76)	(2)	(78)	-	78
Adjustments for efficient over/under spend	1	-	1	-	(1)
25% retention of efficient over/under spend	-	-	-	-	-
Total Renewals (added to the RAB)	(596)	(15)	2,289	3,040	751
Adjustment for inefficient overspend			-	-	-
Adjustment for non-delivery of outputs			-	-	-
Adjustment for capitalised financing			15	-	(15)
Adjustment for 25% retention of efficient over/under spend			-	-	-
Total actual renewals expenditure (see statement 9a)			2,304	3,040	736
Enhancements					
Enhancements in PR08			1,653	1,653	-
Adjustments to the PR08 determination					
Renewals/enhancement reallocation	59	2	61	59	(2)
CP3 deferrals to CP4	73	2	75	73	(2)
Other adjustments	(6)	-	(6)	(5)	1
Adjusted PR08 determination (enhancements)	126	4	1,783	1,780	(3)
Adjustments for the PR08 RAB roll forward policy					
Adjustments for non-delivery of outputs	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(723)	(17)	(740)	-	740
Adjustments for efficient over/under spend	(5)	-	(5)	-	5
25% retention of efficient over/under spend	1	-	1	-	(1)
Adjustments relating to "funds"	-	-	-	-	-
Total PR08 enhancements (added to the RAB)	(601)	(13)	1,039	1,780	741
Non PR 08 Enhancements					
Non PR08 enhancements expenditure qualifying for capitalised financing	-	-	-	-	-
Non PR08 enhancements expenditure not qualifying for capitalised financing	215	-	215	-	(215)
Total Non PR08 enhancements enhancement expenditure	215	-	215	-	(215)
Adjustments for amortisation of Non-PR08 enhancements	-	-	-	-	-
Total non PR08 enhancements (added to the RAB)	215	-	215	-	(215)
Total enhancements (added to the RAB)	(386)	(13)	1,254	1,780	526
Adjustment for NR first £50m retention			-	-	-
Adjustment for inefficient overspend on schemes with fixed price agreements			8	-	(8)
Adjustment for efficient overspend			5	-	(5)
Adjustments for non-delivery of outputs			-	-	-
Adjustment for capitalised financing			14	-	(14)
Adjustment for underspend on schemes with separate protocol			(9)	-	9
Adjustment for 25% retention of efficient over/under spend			(1)	-	1
Other adjustments			(6)	-	6
Non PR08 expenditure					
Third party funded schemes			313	-	(313)
Other enhancements not eligible for RAB addition			13	-	(13)
Total actual enhancement expenditure (see statement 3)			1,591	1,780	189

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2009-10 prices unless stated otherwise

Memo items:

Memo item 1 - renewals over/under spend log	2009-10
Net volume under/over spend (efficient)	-
Net volume overspend (inefficient)	-
Net unit cost over/under spend	-
Total over/under spend renewals	-

Memo item 2 - Outstanding non-capex RAB additions	2009-10
Adjustments made to the RAB at 1 April 2009 (2008/09 prices)	4,613
Indexation for the year	13
Amortisation	(154)
Closing balance	4,472

Comments:

- (1) This schedule shows a reconciliation of the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB for:
 - a. Non-delivery of outputs;
 - b. Deferrals within the control period;
 - c. Changes in input process as indicated by the IOPI index (see below);
 - d. Efficient underspend; and
 - e. The effect of all of the above on capitalised financing.
- (3) IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until September 2010.

Statement 3: GB Analysis of enhancement capital expenditure

in £m 2009-10 prices unless stated otherwise

	Actual	Adjusted PR08	Difference
A) Enhancements included in PR08			
Schemes covered by a tailored protocol or fixed price agreement			
Thameslink	393	541	148
Airdrie to Bathgate	134	151	17
Total Schemes covered by a tailored protocol or fixed price agreement	527	692	165
Funds			
CP5 development fund	7	2	(5)
NRDF (Network Rail Discretionary Fund)	73	50	(23)
Access for all	53	49	(4)
NSIP (National Stations Improvement Programme)	17	22	5
Performance fund (HLOS)	15	22	7
SFN (Strategic Freight Network)	2	30	28
Seven day railway fund	2	-	(2)
Safety and environment fund	31	97	66
Tier 3 project development	-	3	3
Small projects fund	1	4	3
Total Funds	201	279	78
Other PR08 funded schemes			
Intercity express programme	3	8	5
King's Cross	86	126	40
Birmingham New Street gateway project	-	1	1
East Coast Mainline overhead line enhancement	5	2	(3)
St Pancras - Sheffield line speed improvements	1	5	4
Nottingham resignalling	-	-	-
North London Line capacity enhancement	41	20	(21)
GSM-R on freight routes	-	-	-
Station security	2	6	4
Reading	30	45	15
Platform Lengthening – Southern	9	28	19
Southern capacity	1	3	2
ECML improvements	9	12	3
Power supply upgrade	-	12	12
Western Improvements Programme	11	32	21
WCML Committed Schemes	7	25	18
Midlands Improvement Programme	1	6	5
Northern Urban Centres – Yorkshire	-	8	8
Northern Urban Centres – Manchester	-	4	4
Liverpool-Leeds linespeed improvements	-	1	1
Paisley Corridor improvements	21	40	19
Borders railway	-	-	-
Glasgow to Kilmarnock	13	15	2
Unallocated overheads	5	-	(5)
Total Other PR08 funded schemes	245	399	154
CP4 Delivery Plan	973	1,370	397
Schemes carried over from CP3			
WCRM ⁽¹⁾	44	40	(4)
ERTMS	20	20	-
Cab fitment	13	13	-
Total Schemes carried over from CP3	77	73	(4)
Re-profiled expenditure due to programme deferral	-	337	337
Total PR08 funded enhancements	1,050	1,780	730

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2009-10 prices unless stated otherwise

	Actual	Adjusted PR08	Difference
B) Investments not included in PR08			
Government sponsored schemes			
Crossrail	38		(38)
Edinburgh to Glasgow improvements (EGIP)	1		(1)
Electrification	-		-
Other	4		(4)
Total Government sponsored schemes	43	-	(43)
Network Rail sponsored schemes (income generating)			
Other income generating schemes	30		(30)
Total Network Rail sponsored schemes (income generating)	30	-	(30)
Network Rail sponsored schemes (cost saving) ⁽²⁾			
York Acquisition Thrall Site	9		(9)
Other cost saving schemes	1		(1)
Total Network Rail sponsored schemes (cost saving)	10	-	(10)
Schemes promoted by third parties			
Virgin West Coast Car Parks	28		(28)
Evergreen 3	23		(23)
SSWT promoted schemes	11		(11)
Edge Hill Depot	9		(9)
Etches Park Depot	20		(20)
EMT promoted schemes	5		(5)
SSWT ticket gates and vending machine	16		(16)
Other schemes promoted by third parties	20		(20)
Total Schemes promoted by third parties	132	-	(132)
Enhancement expenditure not meeting ORR criteria			
Outperformance expenditure	11		(11)
Schemes with pay back period within the control period	2		(2)
Total enhancement expenditure not meeting ORR criteria	13	-	(13)
Third party funded (PAYG)	313	-	(313)
Total non PR08 enhancement expenditure	541	-	(541)
Total enhancements (see statement 2b)	1,591	1,780	189

Notes:

- (1) The split of capital expenditure on WCRM between renewals and enhancements is still being determined.
- (2) Discussions on policy treatment of Network Rail sponsored cost saving schemes are taking place with the ORR to ascertain appropriate accounting.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this statement displays expenditure against all of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this statement.
- (2) The PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. Variances to the Delivery Plan are mostly due to re-profiling of expenditure.

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2009-10 prices unless stated otherwise

- (3) No PR08 comparison has been provided by the ORR for part B) of this statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (5) Enhancement expenditure by Network Rail in the year was £1,278m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£1,591m) less the PAYG schemes (£313m).

Statement 4: GB Net debt and financial ratios

in £m 2009-10 prices unless stated otherwise

	Actual	PR08	Difference
A) Reconciliation of net debt GB at 31 March 2010			
Opening net debt	20,890	21,267	377
Income			
Fixed charges	(782)	(802)	(20)
Total variable charges	(719)	(653)	66
Grant income	(3,730)	(3,640)	90
Total other single till income	(586)	(586)	-
Other income	-	-	-
Total income	(5,817)	(5,681)	136
Expenditure			
Controllable operating expenditure	991	843	(148)
Non-controllable operating expenditure	434	354	(80)
Maintenance expenditure	1,071	1,111	40
Schedule 4 & 8	149	183	34
Renewals expenditure	2,304	3,039	735
Enhancement expenditure	1,278	1,780	502
Total expenditure	6,227	7,310	1,083
Financing			
Interest expenditure on nominal debt - FIM covered	581	681	100
Interest expenditure on IL debt - FIM covered	150	112	(38)
Accretion on IL debt - FIM covered	347	176	(171)
Expenditure on the FIM	174	170	(4)
Interest expenditure on nominal debt - unsupported	-	50	50
Interest expenditure on IL debt - unsupported	-	-	-
Accretion on IL debt - unsupported	-	-	-
Total financing costs	1,252	1,189	(63)
Corporation tax	4	2	(2)
Other¹	263	-	(263)
Movement in net debt	1,929	2,820	891
Closing net debt	22,819	24,087	1,268

B) Financial Ratios

2009-10

Adjusted interest cover ratio (AICR)	1.77
FFO/interest	3.50
Net debt/RAB (gearing)	63.9%
FFO/debt	13.9%
RCF/debt	9.9%

C) Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	5.4%
Average interest costs on IL debt - FIM covered (excl. indexation)	1.4%
FIM fee in %	0.8%
Average interest costs on nominal debt - unsupported	n/a
Average interest costs on IL debt (excl. accretion) - unsupported	n/a

(1) Other

Movements in working capital	(2)
Other (including changes in definition of debt in the Regulatory Accounting Guidelines)	265

Statement 4: GB Net debt and financial ratios continued

In £m 2009-10 prices unless stated otherwise

Comments:

- (1) This statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines.
- (2) Controllable opex is shown in more detail in Statement 7a.
- (3) Non-controllable opex is shown in more detail in Statement 7a.
- (4) Schedule 4 & 8 is shown in more detail in Statement 12.
- (5) Renewals expenditure is shown in more detail in Statement 9a.
- (6) Enhancements expenditure is shown in more detail in Statement 3.
- (7) Financing – Network Rail paid interest on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). Network Rail did not issue debt outside of the FIM. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08. Accretion is higher as RPI reached 4.4 per cent by March 2010.
- (8) Financial ratios – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt***/RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF****/debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines. ****Retained cash flow (RCF) is defined as FFO minus net interest.

- (9) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 63.9 per cent which was better than the CP4 Delivery Plan which forecast 64.0 per cent. The ORR imposes regulatory limits on this gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utilities face. The gearing ratio is well within the limit in the revised licence condition of 70 per cent.
- (10) The Group's adjusted interest cover ratio (AICR) is a measure of the Group's ability to pay interest on its debt after taking into account all running costs including steady state renewals. Network Rail's AICR for the year was 1.77 which is better than the business plan. This demonstrates that the level of interest payable is affordable because the business generated operational revenue that was 77 per cent greater than the cash required to pay its net financing costs.

Statement 5: GB Financial Performance Statement

No statement is included in the Regulatory Financial Statements for the year ended 31 March 2010 as agreed with the ORR.

Statement 6a: GB Analysis of income

In £m 2009-10 prices unless stated otherwise

	Actual	PR08	Difference
Fixed charges	782	802	(20)
Variable charges			
Variable usage charge	137	126	11
Traction electricity charges	227	178	49
Electrification asset usage charge	8	7	1
Capacity charge	156	159	(3)
Station usage charges	-	-	-
Schedule 4 income (1)	188	183	5
Schedule 8 income (2)	3	-	3
Total gross variable charge income	719	653	66
Rebates paid	-	-	-
Total franchised track access income	1,501	1,455	46
Grant income	3,730	3,640	90
Total franchised track access and grant income	5,231	5,095	136
Other single till income			
Property income	99	113	(14)
Freight income	52	72	(20)
Open access income	23	19	4
Stations income	354	325	29
Depots income	54	50	4
Other	4	7	(3)
Total other single till income	586	586	-
Total income	5,817	5,681	136

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under Schedule 4 are disclosed in Statement 12.
- (2) Schedule 8 income represents passenger charter access charge supplement income. Net amounts receivable under Schedule 8 are disclosed in Statement 12.

Comments:

- (1) This statement shows a schedule of Network Rail's income compared to the PR08. Fixed charges and grants are largely fixed. The remaining income types are variable.
- (2) Traction electricity charges – these charges are determined by the prevailing electricity prices and thus Network Rail has minimal control over what these will be. In this respect traction electricity charges should be considered non-controllable income in the same manner that the traction electricity charges payable are classified as non-controllable opex.
- (3) Grant income – the variance arises from differences in the inflation assumed in the deed of grant with the Department for Transport and Transport Scotland compared to that used to uplift the PR08 from 06/07 prices.
- (4) Property income – the prevailing economic climate has reduced property income. Property sales were low as planned.
- (5) Freight income – under the new pricing structure applicable in CP4, Network Rail would have to increase freight traffic by nearly 40 per cent in order to achieve the PR08 assumption.

Statement 6c: GB Analysis of income by operator

In £m 2009-10 prices unless stated

Franchised Train Operating Companies

	Actual income in the year
	2009-10
Arriva Trains Wales	
Variable usage charges	3
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	4
Fixed charges	45
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	51

	Actual income in the year
	2009-10
C2C	
Variable usage charges	2
Traction electricity charges	8
Electrification asset usage charges	-
Capacity charges	1
Fixed charges	9
Station long term charges	1
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	20

	Actual income in the year
	2009-10
Chiltern	
Variable usage charges	1
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	2
Fixed charges	16
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	19

Statement 6c: GB Analysis of income by operator continued

In £m 2009-10 prices unless stated

	Actual income in the year
	2009-10
Cross Country	
Variable usage charges	9
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	11
Fixed charges	62
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	-
Total income	85

	Actual income in the year
	2009-10
East Coast	
Variable usage charges	19
Traction electricity charges	21
Electrification asset usage charges	1
Capacity charges	5
Fixed charges	42
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	-
Total income	91

	Actual income in the year
	2009-10
East Midland Trains	
Variable usage charges	6
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	14
Fixed charges	39
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	60

Statement 6c: GB Analysis of income by operator continued

In £m 2009-10 prices unless stated

Actual income in the year	
2009-10	
First Capital Connect	
Variable usage charges	5
Traction electricity charges	27
Electrification asset usage charges	1
Capacity charges	12
Fixed charges	26
Station long term charges	2
Station QX	4
Station Facility Charge	-
Other charges	-
Total income	77

Actual income in the year	
2009-10	
First Great Western	
Variable usage charges	15
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	25
Fixed charges	68
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	1
Total income	111

Actual income in the year	
2009-10	
London Midlands	
Variable usage charges	4
Traction electricity charges	19
Electrification asset usage charges	1
Capacity charges	13
Fixed charges	29
Station long term charges	1
Station QX	4
Station Facility Charge	-
Other charges	-
Total income	71

Statement 6c: GB Analysis of income by operator continued

In £m 2009-10 prices unless stated

	Actual income in the year
	2009-10
London Overground	
Variable usage charges	-
Traction electricity charges	2
Electrification asset usage charges	-
Capacity charges	-
Fixed charges	4
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	7

	Actual income in the year
	2009-10
Merseyrail	
Variable usage charges	1
Traction electricity charges	5
Electrification asset usage charges	-
Capacity charges	-
Fixed charges	7
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	13

	Actual income in the year
	2009-10
Northern	
Variable usage charges	4
Traction electricity charges	6
Electrification asset usage charges	-
Capacity charges	4
Fixed charges	78
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	-
Total income	95

Statement 6c: GB Analysis of income by operator continued

In £m 2009-10 prices unless stated

	Actual income in the year
	2009-10
National Express East Anglia	
Variable usage charges	9
Traction electricity charges	27
Electrification asset usage charges	1
Capacity charges	9
Fixed charges	46
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	-
Total income	95

	Actual income in the year
	2009-10
Scotrail	
Variable usage charges	7
Traction electricity charges	11
Electrification asset usage charges	-
Capacity charges	2
Fixed charges	112
Station long term charges	2
Station QX	3
Station Facility Charge	-
Other charges	-
Total income	137

	Actual income in the year
	2009-10
South Eastern	
Variable usage charges	7
Traction electricity charges	35
Electrification asset usage charges	1
Capacity charges	10
Fixed charges	52
Station long term charges	3
Station QX	5
Station Facility Charge	-
Other charges	-
Total income	113

Statement 6c: GB Analysis of income by operator continued

In £m 2009-10 prices unless stated

	Actual income in the year
	2009-10
South West Trains	
Variable usage charges	12
Traction electricity charges	43
Electrification asset usage charges	1
Capacity charges	6
Fixed charges	56
Station long term charges	1
Station QX	3
Station Facility Charge	4
Other charges	1
Total income	127

	Actual income in the year
	2009-10
Southern	
Variable usage charges	8
Traction electricity charges	32
Electrification asset usage charges	1
Capacity charges	14
Fixed charges	41
Station long term charges	2
Station QX	4
Station Facility Charge	-
Other charges	-
Total income	102

	Actual income in the year
	2009-10
Trans Pennine	
Variable usage charges	4
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	2
Fixed charges	25
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	-
Total income	34

Statement 6c: GB Analysis of income by operator continued

In £m 2009-10 prices unless stated

	Actual income in the year
	2009-10
Virgin West Coast	
Variable usage charges	24
Traction electricity charges	34
Electrification asset usage charges	2
Capacity charges	21
Fixed charges	64
Station long term charges	2
Station QX	4
Station Facility Charge	4
Other charges	-
Total income	155

Consolidated Non-Franchised Train Operating Companies

	Actual income in the year
	2009-10
Variable usage charges	3
Traction electricity charges	-
Electrification asset usage charges	3
Capacity charges	-
Fixed charges	16
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	1
Total income	23

Statement 6c: GB Analysis of income by operator continued

In £m 2009-10 prices unless stated

Consolidated Freight Operating Companies

	Actual income in the year
	2009-10
Variable usage charges	46
Traction electricity charges	6
Capacity charges	4
Performance regime	(9)
Coal spillage charge (incl. investment charge)	2
Freight connection agreements and other income	3
Total income	52

Notes:

- (1) Amounts reported for each company in this statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/FOCs, central adjustments and rounding. Amounts in these tables may not cast due to roundings.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 7a: GB Analysis of operating expenditure

in £m 2009/10 prices unless stated

	Actual	PR08	Difference
Controllable operating expenditure			
Signaller staff costs	217	183	(34)
Non-signaller staff costs	614	457	(157)
Staff incentives	79	54	(25)
Other employee related costs	118	70	(48)
Pensions	126	114	(12)
Consultants/contractors/agency	90	89	(1)
Insurance and claims	61	70	9
Accommodation, office, property expenses	114	101	(13)
Information management	42	42	-
Other	147	156	9
Total gross controllable operating expenditure	1,608	1,336	(272)
Less:			
Other operating income	(158)	(94)	64
Own work capitalised	(459)	(399)	60
Total controllable operating expenditure	991	843	(148)
Non-controllable operating expenditure			
Traction electricity costs	257	193	(64)
Cumulo rates	74	74	-
BT Transport Police costs	76	61	(15)
Rail Safety and Standards Board levy	8	9	1
ORR fees (incl. ORR licence fee and the railway safety levy)	19	17	(2)
Other (i.e. CIRAS fees)	-	-	-
Total non-controllable operating expenditure	434	354	(80)
Total operating expenditure	1,425	1,197	(228)

Comments:

- (1) Network Rail's costs are categorised between operating costs (as shown in the above table) and maintenance (refer to Statement 8a). Costs are classified between controllable operating expenditure and non-controllable operating expenditure. The ORR define non-controllable in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines.
- (2) Signaller staff costs & Non-signaller staff costs – Staff cost variances reflect lower reductions in staff costs over the last two years of CP3 than assumed by PR08. Additionally this year saw some one off transformation programme costs and staff costs increases that because of a lagged effect were agreed in the Autumn 2008 when prevailing inflation was higher than experienced through 2009-10. Around 500 staff were recruited in the year as Network Rail geared up for the challenge of delivering an £11bn enhancement programme over the next four years. Some of these costs were capitalised.
- (3) Network Rail uses staff incentives in driving performance improvements. Staff incentives were higher than assumed by the PR08 because performance was above the targeted levels. For example train punctuality improved significantly with 91.5% of trains running on time, up 0.9% in the year. Asset condition and cost efficiency also exceeded targets. Staff incentives included average payments to executive directors of £375k, to the next 250 of £50k and £1.8k for the remaining circa 36,000 employees.

Statement 7a: GB Analysis of operating expenditure continued

- (4) Other employee related costs – these costs are higher than the PR08 allowance due to additional redundancy and restructuring costs being incurred.
- (5) Pensions – these costs are higher than the PR08 largely because pension contribution rates were greater than those assumed in the PR08.
- (6) Insurance and claims – costs are lower than the PR08 allowance largely because there were fewer significant incidents on the network.
- (7) Accommodation, office, commercial property expenses – these costs are impacted by higher utility costs than assumed in PR08.
- (8) Other operating income – this is by its nature a variable income. This is income earned from recovery of operating costs from third parties. This offsets increased gross operating expenditure.
- (9) Own work capitalised – this was higher due to more renewals work being delivered in-house by various reporting units within Network Rail. These additional recoveries help explain the higher costs relative to the PR08 allowance.
- (10) Traction electricity costs – these costs are considered non-controllable as they are determined by the prevailing prices in the utilities market. As noted in Statement 6a, the recovery of these costs through traction electricity income was significantly higher than the PR08 allowance.
- (11) BT Transport Police costs – maintaining and improving the safety and security of the travelling public will always be Network's Rail top priority. It has not been possible to achieve the cost savings assumed by the PR08.

Statement 8a (1): GB Summary analysis of maintenance expenditure

in £m 2009/10 prices unless stated

	Actual	PR08	Difference
Core Maintenance (1)			
Track	464	459	(5)
Structures	33	42	9
Signalling	168	135	(33)
Telecoms	65	73	8
Electrification	46	37	(9)
Plant & machinery	38	16	(22)
Operational property	-	-	-
Other	49	36	(13)
Sub-total	863	798	(65)
Indirect costs	103	197	94
Other costs	105	116	11
Total maintenance expenditure	1,071	1,111	40

Notes:

- (1) These costs only include direct costs.
- (2) Maintenance expenditure includes spend on West Coast Route Modernisation (WCRM) of £nil, National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.

Comments:

- (1) Network Rail's costs are categorised between operating costs (refer to Statement 7a) and maintenance (as shown in the above table). The maintenance costs above are shown as prescribed by the Regulatory Accounting Guidelines.
- (2) This year saw a good performance in maintenance where costs compared to last year were reduced by 7 per cent or £86m on a like for like basis through a combination of tight cost management, control of headcount, productivity improvements and reductions in waste. Improved management controls and planning led to a reduction in overtime costs and a reduction in the use of labour subcontractors for core work, saving £21m. We have invested in training over recent years and in 2009/10 we have utilised the increased skills of our employees to carry out tasks previously carried out by contractors. We are dedicated to reducing waste. For example, our fleet management team have achieved a significant reduction in vehicle numbers, by 10 per cent, which will lead to financial savings of over £10m.
- (3) On a net basis maintenance costs are 4 per cent lower than the PR08. The PR08 includes a much higher proportion of indirect costs than is present in the actuals.

Statement 8a (2): GB Summary analysis of maintenance headcount by activity

	Actual
Direct Maintenance	
Pway	9,211
Signalling	3,756
Telecoms	159
Electrification & Plant	1,392
Total direct	14,518
Indirect Maintenance	
Delivery Unit HQ	2,084
Route HQ	106
Other HQ	1,274
Total indirect	3,464
Total maintenance headcount	17,982

Notes:

- (1) The above data represents the headcount in the maintenance function. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are not borne by the maintenance function. Therefore, the two sets of data are not comparable.
- (1) The above data reflects full time equivalent permanent staff.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: GB Summary analysis of renewals expenditure

in £m 2009/10 prices unless stated

	Actual	PR08	Difference
Track	698	795	97
Structures	353	402	49
Signalling	411	491	80
Telecoms	232	359	127
Electrification	81	149	68
Plant and machinery	89	173	84
Operational property	229	314	85
Other renewals			
Information management	88	89	1
Corporate offices	23	18	(5)
Discretionary investment	42	106	64
Other miscellaneous	58	143	85
Sub-total other renewals	211	356	145
Total renewals expenditure	2,304	3,039	735

Notes:

- (1) Renewals includes spend on West Coast Route Modernisation (WCRM) of £46m. All expenditure for National Stations Improvement Programme (NSIP), Performance fund and the seven day railway is shown within Enhancements (refer to Statement 3).

Commentary:

- (1) Overall, the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. A comparison to the Delivery Plan is included in the Director's review. The Director's review also includes an analysis of how the timing differences between the PR08 and the Business Plan unwind over the control period. It is too early in the control period to consider that the any of the underspend shown in the above table represents efficiencies against the PR08.
- (2) Track – expenditure in the year was lower due to a different assumption about the timing of when the volumes would be delivered in the PR08 compared to Network Rail's own plan.
- (3) Structures – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (4) Signalling – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (5) Telecoms – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (6) Electrification – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.

Statement 9a: GB Summary analysis of renewals expenditure continued

In £m 2009/10 prices unless stated

- (7) Plant & machinery – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (8) Operational property – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (9) Discretionary - expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan, notably the assumptions regarding the Efficient Engineering Access programme on the West Coast.
- (10) Other - expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan, notably the assumptions regarding the West Coast programme.

Statement 12: GB Other information

in £m 2009-10 prices unless stated

	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/ (cost) – performance element			
Schedule 4			
Income	-		
Cost	(151)		
Net income/ (cost)	(151)	(183)	32
Schedule 8			
Income	67		
Cost	(65)		
Net income	2	-	2
B) Net impact of Schedule 4 & 8			
Schedule 4			
Access charge supplement income	188	183	5
Income/ (cost)	(151)	(183)	32
Net income	37	-	37
Schedule 8			
Access charge supplement income	3	-	3
Income	2	-	2
Net income	5	-	5
C) Opex memorandum account			
In year			
Volume incentive	36		
Other	(12)		
Total logged up items – in year movements	24		

Comments:

- (1) Schedule 4 costs - Better planning of investment work meant there were reduced payments to train operators for disruption caused by that work.
- (2) Schedule 8 income - The proportion of passenger trains running on time rose to 91.5 per cent, ahead of the required regulatory output of 91.0 per cent and significantly better than last years level of 90.6 per cent. But the unprecedented weather in January meant that punctuality was difficult to deliver that month, and cost the Group over £40m in performance related compensation payment to customers. The severe winter weather caused 40 per cent of the delay minutes in January.

DISAGGREGATED FINANCIAL INFORMATION

Statement 1: England & Wales Summary regulatory financial performance

in £m 2009-10 prices unless stated otherwise

	Actual	PR08	Difference
Income	5,256	5,130	126
Expenditure			
Controllable opex	896	767	(129)
Non-controllable opex	402	326	(76)
Maintenance	979	1,005	26
Schedule 4 & 8	138	172	34
Renewals	2,078	2,702	624
Enhancements	1,100	1,604	504
Financing costs	1,135	1,070	(65)
Corporation tax	4	2	(2)
Total expenditure	6,732	7,648	916

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year. In March 2009, Network Rail published its CP4 Delivery Plan ("the Delivery Plan") which set out how Network Rail plans to deliver the outputs for the five year regulatory settlement at the appropriate cost. This has a different profile to the PR08 regulatory determination but allowed the business to live within the funding available. A comparison to the Delivery Plan is included in the Director's review.
- (2) Controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (3) Non-controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (4) Schedule 4 & 8 – the variance was mainly due to better planning and improved performance (refer to Statement 12).
- (5) Renewals expenditure is set out in more detail in Statement 9a and is lower than the PR08 mostly due to re-profiling of expenditure within the control period.
- (6) Enhancements expenditure is set out in more detail in Statement 3 is lower than the PR08 mostly due to re-profiling of expenditure within the control period.
- (7) Financing costs represents the interest payable in the year including the £158m Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

Statement 2a: England & Wales RAB - regulatory financial position

in £m 2009-10 prices unless stated otherwise

A) Calculation of the England & Wales RAB at 31 March 2010

	Actual	PR08	Difference
Opening RAB for the year (2006-07 prices) (1)	28,552	28,552	-
Indexation to 2008-09 prices	2,116	2,116	-
Opening RAB for the year (2008-09 prices)	30,668	30,668	-
Indexation for the year	85	85	-
Opening RAB (2009-10 prices)	30,753	30,753	-
Adjustments for the actual capex outturn in CP3 (refer to Appendix F)	(63)	(63)	-
Renewals (added to the RAB)	2,065	2,703	(638)
Enhancements (added to the RAB)	1,087	1,604	(517)
Renewals & Enhancements funded from RFF	(402)	(402)	-
Amortisation	(1,383)	(1,383)	-
Closing RAB at 31 March 2010	32,057	33,212	(1,155)

Note:

(1) This is the CP4 opening RAB as stated in the PR08 final determination.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until the end of the control period and we will continue to have regular discussions around the treatment of capital expenditure with the ORR.
- (2) Renewals – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan is mostly due to re-profiling of expenditure within the control period (refer to Statement 9a).
- (3) Enhancements – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan is mostly due to re-profiling of expenditure within the control period (refer to Statement 3).

Statement 2b: England & Wales RAB - reconciliation of expenditure

in £m 2009-10 prices unless stated otherwise

Movements in 2009-10

	Adjustment	Capitalised financing	Total at 31/03/10	PR08	Difference
Renewals					
Renewals in the determination			2,567	2,567	-
Adjustments to the PR08 determination					
Renewals/enhancement reallocation	(60)	(2)	(62)	(60)	2
CP3 deferrals to CP4	192	5	197	194	(3)
Seven day railway	2	-	2	2	-
Renewals overheads	-	-	-	-	-
Adjusted PR08 determination (renewals)	134	3	2,704	2,703	(1)
Adjustments for the PR08 RAB roll forward policy					
Adjustments for non-delivery of outputs	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(558)	(14)	(572)	-	572
IOPI index adjustments	(68)	(2)	(70)	-	70
Adjustments for efficient over/under spend	4	-	4	-	(4)
25% retention of efficient over/under spend	(1)	-	(1)	-	1
Total Renewals (added to the RAB)	(489)	(13)	2,065	2,703	638
Adjustment for inefficient overspend			-	-	-
Adjustment for non-delivery of outputs			-	-	-
Adjustment for capitalised financing			12	-	(12)
Adjustment for 25% retention of efficient over/under spend			1	-	(1)
Total actual renewals expenditure (see statement 9a)			2,078	2,703	625
Enhancements					
Enhancements in PR08			1,476	1,476	-
Adjustments to the PR08 determination					
Renewals/enhancement reallocation	60	2	62	60	(2)
CP3 deferrals to CP4	69	2	71	73	2
Other adjustments	(6)	-	(6)	(5)	1
Adjusted PR08 determination (enhancements)	123	4	1,603	1,604	1
Adjustments for the PR08 RAB roll forward policy					
Adjustments for non-delivery of outputs	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(710)	(17)	(727)	-	727
Adjustments for efficient over/under spend	(5)	-	(5)	-	5
25% retention of efficient over/under spend	1	-	1	-	(1)
Adjustments relating to "funds"	-	-	-	-	-
Total PR08 enhancements (added to the RAB)	(591)	(13)	872	1,604	732
Non PR 08 Enhancements					
Non PR08 enhancements expenditure qualifying for capitalised financing	-	-	-	-	-
Non PR08 enhancements expenditure not qualifying for capitalised financing	215	-	215	-	(215)
Total Non PR08 enhancements enhancement expenditure	215	-	215	-	(215)
Adjustments for amortisation of Non-PR08 enhancements	-	-	-	-	-
Total non PR08 enhancements (added to the RAB)	215	-	215	-	(215)
Total enhancements (added to the RAB)	(376)	(13)	1,087	1,604	517
Adjustment for NR first £50m retention			-	-	-
Adjustment for inefficient overspend on schemes with fixed price agreements			-	-	-
Adjustment for efficient overspend			5	-	(5)
Adjustments for non-delivery of outputs			-	-	-
Adjustment for capitalised financing			14	-	(14)
Adjustment for underspend on schemes with separate protocol			(9)	-	9
Adjustment for 25% retention of efficient over/under spend			(1)	-	1
Other adjustments			(8)	-	8
Non PR08 expenditure					
Third party funded schemes			297	-	(297)
Other enhancements not eligible for RAB addition			12	-	(12)
Total actual enhancement expenditure (see statement 3)			1,397	1,604	207

Statement 2b: England & Wales RAB - reconciliation of expenditure continued

In £m 2009-10 prices unless stated otherwise

Memo items:

Memo item 1 - renewals over/under spend log	2009-10
Net volume under/over spend (efficient)	-
Net volume overspend (inefficient)	-
Net unit cost over/under spend	-
Total over/under spend renewals	-

Memo item 2 - Outstanding non-capex RAB additions	2009-10
Adjustments made to the RAB at 1 April 2009 (2008/09 prices)	4,129
Indexation for the year	12
Amortisation	(138)
Closing balance	4,003

Comments:

- (1) This schedule shows a reconciliation of the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB for:
 - a. Non-delivery of outputs;
 - b. Deferrals within the control period;
 - c. Changes in input process as indicated by the IOPI index (see below);
 - d. Efficient underspend; and
 - e. The effect of all of the above on capitalised financing.
- (3) IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until September 2010.

Statement 3: England & Wales Analysis of enhancement capital expenditure

In £m 2009-10 prices unless stated otherwise

	Actual	Adjusted PR08	Difference
A) Enhancements included in PR08			
Schemes covered by a tailored protocol or fixed price agreement			
Thameslink	393	541	148
Total Schemes covered by a tailored protocol or fixed price agreement	393	541	148
Funds			
CP5 development fund	7	2	(5)
NRDF (Network Rail Discretionary Fund)	73	50	(23)
Access for all	53	49	(4)
NSIP (National Stations Improvement Programme)	17	22	5
Performance fund (HLOS)	15	22	7
SFN (Strategic Freight Network)	2	30	28
Seven day railway fund	2	-	(2)
Safety and environment fund	31	97	66
Total Funds	200	272	72
Other PR08 funded schemes			
Intercity express programme	3	8	5
King's Cross	86	126	40
Birmingham New Street gateway project	-	1	1
East Coast Mainline overhead line enhancement	5	2	(3)
St Pancras - Sheffield line speed improvements	1	5	4
Nottingham resignalling	-	-	-
North London Line capacity enhancement	41	20	(21)
GSM-R on freight routes	-	-	-
Station security	2	6	4
Reading	30	45	15
Platform Lengthening – Southern	9	28	19
Southern capacity	1	3	2
ECML improvements	9	12	3
Power supply upgrade	-	12	12
Western Improvements Programme	11	32	21
WCML Committed Schemes	7	25	18
Midlands Improvement Programme	1	6	5
Northern Urban Centres – Yorkshire	-	8	8
Northern Urban Centres – Manchester	-	4	4
Liverpool-Leeds linespeed improvements	-	1	1
Unallocated overheads	5	-	(5)
Total Other PR08 funded schemes	211	344	133
CP4 Delivery Plan	804	1,157	353
Schemes carried over from CP3			
WCRM ⁽¹⁾	44	40	(4)
ERTMS	17	20	3
Cab fitment	12	13	1
Total Schemes carried over from CP3	73	73	-
Re-profiled expenditure due to programme deferral	-	374	374
Total PR08 funded enhancements	877	1,604	727

Statement 3: England & Wales Analysis of enhancement capital expenditure continued

In £m 2009-10 prices unless stated otherwise

	Actual	Adjusted PR08	Difference
B) Investments not included in PR08			
Government sponsored schemes			
Crossrail	38		(38)
Electrification	-		-
Other	2		(2)
Total Government sponsored schemes	40	-	(40)
Network Rail sponsored schemes (income generating)			
Other income generating schemes	29		(29)
Total Network Rail sponsored schemes (income generating)	29	-	(29)
Network Rail sponsored schemes (cost saving) ⁽²⁾			
York Acquisition Thrall Site	9		(9)
Other cost saving schemes	1		(1)
Total Network Rail sponsored schemes (cost saving)	10	-	(10)
Schemes promoted by third parties			
Virgin West Coast Car Parks	28		(28)
Evergreen 3	23		(23)
SSWT Promoted Schemes	11		(11)
Edge Hill Depot	9		(9)
Etches Park Depot	20		(20)
EMT Promoted Schemes	5		(5)
SSWT ticket gates and vending machines	16		(16)
Other schemes promoted by third parties	20		(20)
Total Schemes promoted by third parties	132	-	(132)
Enhancement expenditure not meeting ORR criteria			
Outperformance expenditure	10		(10)
Schemes with pay back period within the control period	2		(2)
Total enhancement expenditure not meeting ORR criteria	12	-	(12)
Third party funded (PAYG)	297	-	(297)
Total non PR08 enhancement expenditure	520	-	(520)
Total enhancements (see statement 2b)	1,397	1,604	207

Notes:

- (1) The split of capital expenditure on WCRM between renewals and enhancements is still being determined.
- (2) Discussions on policy treatment of Network Rail sponsored cost saving schemes are taking place with the ORR to ascertain appropriate accounting.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this statement displays expenditure against all of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this statement.

Statement 3: England & Wales Analysis of enhancement capital expenditure continued

In £m 2009-10 prices unless stated otherwise

- (2) The PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. Variances to the Delivery Plan are mostly due to re-profiling of expenditure.
- (3) No PR08 comparison has been provided by the ORR for part B) of this statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (5) Enhancement expenditure by Network Rail for England & Wales in the year was £1,100m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£1,397m) less the PAYG schemes (£297m).

Statement 4: England & Wales Net debt and financial ratios

in £m 2009-10 prices unless stated otherwise

	Actual	PR08	Difference
A) Reconciliation of net debt England & Wales at 31 March 2010			
Opening net debt	18,809	18,986	177
Income			
Fixed charges	(672)	(693)	(21)
Total variable charges	(681)	(616)	65
Grant income	(3,366)	(3,285)	81
Total other single till income	(537)	(536)	1
Other income	-	-	-
Total income	(5,256)	(5,130)	126
Expenditure			
Controllable operating expenditure	896	767	(129)
Non-controllable operating expenditure	402	326	(76)
Maintenance expenditure	979	1,005	26
Schedule 4 & 8	138	172	34
Renewals expenditure	2,078	2,702	624
Enhancement expenditure	1,100	1,604	504
Total expenditure	5,593	6,576	983
Financing			
Interest expenditure on nominal debt - FIM covered	526	614	88
Interest expenditure on IL debt - FIM covered	136	101	(35)
Accretion on IL debt - FIM covered	315	158	(157)
Expenditure on the FIM	158	153	(5)
Interest expenditure on nominal debt - unsupported	-	44	44
Interest expenditure on IL debt - unsupported	-	-	-
Accretion on IL debt - unsupported	-	-	-
Total financing costs	1,135	1,070	(65)
Corporation tax	4	2	(2)
Other¹	236	-	(236)
Movement in net debt	1,712	2,518	806
Closing net debt	20,521	21,504	983

B) Financial Ratios

	2009-10
Adjusted interest cover ratio (AICR)	1.77
FFO/interest	3.46
Net debt/RAB (gearing)	64.0%
FFO/debt	13.8%
RCF/debt	9.8%

C) Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	5.4%
Average interest costs on IL debt - FIM covered (excl. indexation)	1.4%
FIM fee in %	0.8%
Average interest costs on nominal debt - unsupported	n/a
Average interest costs on IL debt (excl. accretion) - unsupported	n/a

(1) Other

Movements in working capital	(2)
Other (including changes in definition of debt in the Regulatory Accounting Guidelines)	238

Statement 4: England & Wales Net debt and financial ratios continued

In £m 2009-10 prices unless stated otherwise

Comments:

- (1) This statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines.
- (2) Controllable opex is shown in more detail in Statement 7a.
- (3) Non-controllable opex is shown in more detail in Statement 7a.
- (4) Schedule 4 & 8 is shown in more detail in Statement 12.
- (5) Renewals expenditure is shown in more detail in Statement 9a.
- (6) Enhancements expenditure is shown in more detail in Statement 3.
- (7) Financing – Network Rail paid interest on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). Network Rail did not issue debt outside of the FIM. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08. Accretion is higher as RPI reached 4.4 per cent by March 2010.
- (8) Financial ratios – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines. ****Retained cash flow (RCF) is defined as FFO minus net interest.

- (9) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 64.0. The ORR imposes regulatory limits on this gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utilities face. The Great Britain gearing ratio is well within the limit in the revised licence condition of 70 per cent.
- (10) The Group's adjusted interest cover ratio (AICR) is a measure of the Group's ability to pay interest on its debt after taking into account all running costs including steady state renewals. Network Rail's AICR for the year was 1.77. This demonstrates that the level of interest payable is affordable because the business generated operational revenue that was 77 per cent greater than the cash required to pay its net financing costs.

Statement 5: England & Wales Financial Performance Statement

No statement is included in the Regulatory Financial Statements for the year ended 31 March 2010 as agreed with the ORR.

Statement 6a: England & Wales Analysis of income

In £m 2009-10 prices unless stated otherwise

	Actual	PR08	Difference
Fixed charges	672	693	(21)
Variable charges			
Variable usage charge	126	116	10
Traction electricity charges	214	168	46
Electrification asset usage charge	7	6	1
Capacity charge	151	154	(3)
Station usage charges	-	-	-
Schedule 4 income (1)	180	172	8
Schedule 8 income (2)	3	-	3
Total gross variable charge income	681	616	65
Rebates paid	-	-	-
Total franchised track access income	1,353	1,309	44
Grant income	3,366	3,285	81
Total franchised track access and grant income	4,719	4,594	125
Other single till income			
Property income	88	107	(19)
Freight income	47	62	(15)
Open access income	23	19	4
Stations income	327	297	30
Depots income	48	44	4
Other	4	7	(3)
Total other single till income	537	536	1
Total income	5,256	5,130	126

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under Schedule 4 are disclosed in Statement 12.
- (2) Schedule 8 income represents passenger charter access charge supplement income. Net amounts receivable under Schedule 8 are disclosed in Statement 12.

Comments:

- (1) This statement shows a schedule of Network Rail's income compared to the PR08. Fixed charges and grants are largely fixed. The remaining income types are variable.
- (2) Traction electricity charges – these charges are determined by the prevailing electricity prices and thus Network Rail has minimal control over what these will be. In this respect traction electricity charges should be considered non-controllable income in the same manner that the traction electricity charges payable are classified as non-controllable opex.
- (3) Grant income – the variance arises from differences in the inflation assumed in the deed of grant with the Department for Transport compared to that used to uplift the PR08 from 06/07 prices.

Statement 6a: England & Wales Analysis of income continued

In £m 2009-10 prices unless stated otherwise

- (4) Property income – the prevailing economic climate has reduced property income. Property sales were low as planned.
- (5) Freight income – under the new pricing structure applicable in CP4, Network Rail would have to increase freight traffic by nearly 40 per cent in order to achieve the PR08 assumption.

Statement 6c: England & Wales Analysis of income by operator

In £m 2009-10 prices unless stated

Franchised Train Operating Companies

	Actual income in the year
	2009-10
Arriva Trains Wales	
Variable usage charges	3
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	4
Fixed charges	45
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	51

	Actual income in the year
	2009-10
C2C	
Variable usage charges	2
Traction electricity charges	8
Electrification asset usage charges	-
Capacity charges	1
Fixed charges	9
Station long term charges	1
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	20

	Actual income in the year
	2009-10
Chiltern	
Variable usage charges	1
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	2
Fixed charges	16
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	19

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2009-10 prices unless stated

	Actual income in the year
	2009-10
Cross Country	
Variable usage charges	9
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	10
Fixed charges	62
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	-
Total income	84

	Actual income in the year
	2009-10
East Coast	
Variable usage charges	17
Traction electricity charges	19
Electrification asset usage charges	1
Capacity charges	4
Fixed charges	42
Station long term charges	1
Station QX	1
Station Facility Charge	-
Other charges	-
Total income	85

	Actual income in the year
	2009-10
East Midland Trains	
Variable usage charges	6
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	14
Fixed charges	39
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	60

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2009-10 prices unless stated

	Actual income in the year
	2009-10
First Capital Connect	
Variable usage charges	5
Traction electricity charges	27
Electrification asset usage charges	1
Capacity charges	12
Fixed charges	26
Station long term charges	2
Station QX	4
Station Facility Charge	-
Other charges	-
Total income	77

	Actual income in the year
	2009-10
First Great Western	
Variable usage charges	15
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	25
Fixed charges	68
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	1
Total income	111

	Actual income in the year
	2009-10
London Midlands	
Variable usage charges	4
Traction electricity charges	19
Electrification asset usage charges	1
Capacity charges	13
Fixed charges	29
Station long term charges	1
Station QX	4
Station Facility Charge	-
Other charges	-
Total income	71

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2009-10 prices unless stated

	Actual income in the year 2009-10
London Overground	
Variable usage charges	-
Traction electricity charges	2
Electrification asset usage charges	-
Capacity charges	-
Fixed charges	4
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	7

	Actual income in the year 2009-10
Merseyrail	
Variable usage charges	1
Traction electricity charges	5
Electrification asset usage charges	-
Capacity charges	-
Fixed charges	7
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	13

	Actual income in the year 2009-10
Northern	
Variable usage charges	4
Traction electricity charges	6
Electrification asset usage charges	-
Capacity charges	4
Fixed charges	78
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	-
Total income	95

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2009-10 prices unless stated

	Actual income in the year 2009-10
National Express East Anglia	
Variable usage charges	9
Traction electricity charges	27
Electrification asset usage charges	1
Capacity charges	9
Fixed charges	46
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	-
Total income	95

	Actual income in the year 2009-10
Scotrail	
Variable usage charges	1
Traction electricity charges	1
Electrification asset usage charges	-
Capacity charges	-
Fixed charges	-
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	2

	Actual income in the year 2009-10
South Eastern	
Variable usage charges	7
Traction electricity charges	35
Electrification asset usage charges	1
Capacity charges	10
Fixed charges	52
Station long term charges	3
Station QX	5
Station Facility Charge	-
Other charges	-
Total income	113

Statement 6c: England & Wales Analysis of income by operator continued

in £m 2009-10 prices unless stated

	Actual income in the year 2009-10
South West Trains	
Variable usage charges	12
Traction electricity charges	43
Electrification asset usage charges	1
Capacity charges	6
Fixed charges	56
Station long term charges	1
Station QX	3
Station Facility Charge	4
Other charges	1
Total income	127

	Actual income in the year 2009-10
Southern	
Variable usage charges	8
Traction electricity charges	32
Electrification asset usage charges	1
Capacity charges	14
Fixed charges	41
Station long term charges	2
Station QX	4
Station Facility Charge	-
Other charges	-
Total income	102

	Actual income in the year 2009-10
Trans Pennine	
Variable usage charges	4
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	2
Fixed charges	25
Station long term charges	1
Station QX	2
Station Facility Charge	-
Other charges	-
Total income	34

Statement 6c: England & Wales Analysis of income by operator continued

in £m 2009-10 prices unless stated

	Actual income in the year
	2009-10
Virgin West Coast	
Variable usage charges	22
Traction electricity charges	32
Electrification asset usage charges	1
Capacity charges	21
Fixed charges	64
Station long term charges	2
Station QX	4
Station Facility Charge	4
Other charges	-
Total income	150

Consolidated Non-Franchised Train Operating Companies

	Actual income in the year
	2009-10
Variable usage charges	3
Traction electricity charges	-
Electrification asset usage charges	3
Capacity charges	-
Fixed charges	16
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	1
Total income	23

Statement 6c: England & Wales Analysis of income by operator continued

in £m 2009-10 prices unless stated

Consolidated Freight Operating Companies

	Actual income in the year
	2009-10
Variable usage charges	41
Traction electricity charges	5
Capacity charges	4
Performance regime	(8)
Coal spillage charge (incl. investment charge)	2
Freight connection agreements and other income	3
Total income	47

Notes:

- (1) Amounts reported for each company in this statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/FOCs, central adjustments and rounding. Amounts in these tables may not cast due to roundings.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 7a: England & Wales Analysis of operating expenditure

in £m 2009/10 prices unless stated

	Actual	PR08	Difference
Controllable operating expenditure			
Signaller staff costs	197	166	(31)
Non-signaller staff costs	557	415	(142)
Staff incentives	72	49	(23)
Other employee related costs	106	64	(42)
Pensions	114	104	(10)
Consultants/contractors/agency	82	81	(1)
Insurance and claims	52	64	12
Accommodation, office, property expenses	103	92	(11)
Information management	38	38	-
Other	135	141	6
Total gross controllable operating expenditure	1,456	1,214	(242)
Less:			
Other operating income	(144)	(85)	59
Own work capitalised	(416)	(362)	54
Total controllable operating expenditure	896	767	(129)
Non-controllable operating expenditure			
Traction electricity costs	243	182	(61)
Cumulo rates	66	66	-
BT Transport Police costs	69	55	(14)
Rail Safety and Standards Board levy	7	8	1
ORR fees (incl. ORR licence fee and the railway safety levy)	17	15	(2)
Other (i.e. CIRAS fees)	-	-	-
Total non-controllable operating expenditure	402	326	(76)
Total operating expenditure	1,298	1,093	(205)

Comments:

- (1) Network Rail's costs are categorised between operating costs (as shown in the above table) and maintenance (refer to Statement 8a). Costs are classified between controllable operating expenditure and non-controllable operating expenditure. The ORR define non-controllable in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines.
- (2) Signaller staff costs & Non-signaller staff costs – Staff cost variances reflect lower reductions in staff costs over the last two years of CP3 than assumed by PR08. Additionally this year saw some one off transformation programme costs and staff costs increases that because of a lagged effect were agreed in the Autumn 2008 when prevailing inflation was higher than experienced through 2009-10. Around 500 staff were recruited across Great Britain in the year as Network Rail geared up for the challenge of delivering an £11bn enhancement programme over the next four years. Some of these costs were capitalised.
- (12) Network Rail uses staff incentives in driving performance improvements. Staff incentives were higher than assumed by the PR08 because performance was above the targeted levels. For example train punctuality improved significantly with 91.5% of trains running on time, up 0.9% in the year. Asset condition and cost efficiency also exceeded targets. Staff incentives included average payments to executive directors of £375k, to the next 250 of £50k and £1.8k for the remaining circa 36,000 employees.

Statement 7a: England & Wales Analysis of operating expenditure continued

in £m 2009/10 prices unless stated

- (3) Other employee related costs – these costs are higher than the PR08 allowance due to additional redundancy and restructuring costs being incurred.
- (4) Pensions – these costs are higher than the PR08 largely because pension contribution rates were greater than those assumed in the PR08.
- (5) Insurance and claims – costs are lower than the PR08 allowance largely because there were fewer significant incidents on the network.
- (6) Accommodation, office, commercial property expenses – utility cost are higher than assumed in the PR08.
- (7) Other operating income – this is by its nature a variable income. This is income earned from recovery of operating costs from third parties. This offsets increased gross operating expenditure.
- (8) Own work capitalised – this was higher due to more renewals work being delivered in-house by various reporting units within Network Rail. These additional recoveries help explain the higher costs relative to the PR08 allowance.
- (9) Traction electricity costs – these costs are considered non-controllable as they are determined by the prevailing prices in the utilities market. As noted in Statement 6a, the recovery of these costs through traction electricity income was significantly higher than the PR08 allowance.
- (10) BT Transport Police costs – maintaining and improving the safety and security of the travelling public will always be Network's Rail top priority. It has not been possible to achieve the cost savings assumed by the PR08.

Statement 8a (1): England & Wales Summary analysis of maintenance expenditure

in £m 2009/10 prices unless stated

	Actual	PR08	Difference
Core Maintenance (1)			
Track	422	414	(8)
Structures	30	38	8
Signalling	153	123	(30)
Telecoms	59	65	6
Electrification	43	32	(11)
Plant & machinery	37	14	(23)
Operational property	-	-	-
Other	41	32	(9)
Sub-total	785	718	(67)
Indirect costs	99	178	79
Other costs	95	109	14
Total maintenance expenditure	979	1,005	26

Notes:

- (1) These costs only include direct costs.
- (2) Maintenance expenditure includes spend on West Coast Route Modernisation (WCRM) of £nil, National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.

Comments:

- (1) Network Rail's costs are categorised between operating costs (refer to Statement 7a) and maintenance (as shown in the above table). The maintenance costs above are shown as prescribed by the Regulatory Accounting Guidelines.
- (2) This year saw a good performance in maintenance where costs compared to last year were reduced by 7 per cent or £86m on a like for like basis across Great Britain through a combination of tight cost management, control of headcount, productivity improvements and reductions in waste. Improved management controls and planning led to a reduction in overtime costs and a reduction in the use of labour subcontractors for core work, saving £21m. We have invested in training over recent years and in 2009/10 we have utilised the increased skills of our employees to carry out tasks previously carried out by contractors. We are dedicated to reducing waste. For example, our fleet management team have achieved a significant reduction in vehicle numbers, by 10 per cent, which will lead to financial savings of over £10m.
- (3) On a net basis maintenance costs are 3 per cent lower than the PR08. The PR08 includes a much higher proportion of indirect costs than is present in the actuals.

Statement 8a (2): England & Wales Summary analysis of maintenance headcount by activity

	Actual
Direct Maintenance	
Pway	8,436
Signalling	3,428
Telecoms	150
Electrification & Plant	1,291
Total direct	13,305
Indirect Maintenance	
Delivery Unit HQ	1,720
Route HQ	96
Other HQ	1,154
Total indirect	2,970
Total maintenance headcount	16,275

Notes:

- (1) The above data represents the headcount in the maintenance function. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are not borne by the maintenance function. Therefore, the two sets of data are not comparable.
- (1) The above data reflects full time equivalent permanent staff.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: England & Wales Summary analysis of renewals expenditure

in £m 2009/10 prices unless stated

	Actual	PR08	Difference
Track	636	722	86
Structures	282	315	33
Signalling	391	467	76
Telecoms	197	308	111
Electrification	80	136	56
Plant and machinery	83	159	76
Operational property	208	260	52
Other renewals			
Information management	80	81	1
Corporate offices	22	17	(5)
Discretionary investment	42	98	56
Other miscellaneous	57	139	82
Sub-total other renewals	201	335	134
Total renewals expenditure	2,078	2,702	624

Notes:

- (1) Renewals includes spend on West Coast Route Modernisation (WCRM) of £46m. All expenditure for National Stations Improvement Programme (NSIP), Performance fund and the seven day railway is shown within Enhancements (refer to Statement 3).

Commentary:

- (1) Overall, the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. A comparison to the Delivery Plan is included in the Director's review. The Director's review also includes an analysis of how the timing differences between the PR08 and the Business Plan unwind over the control period. It is too early in the control period to consider that the any of the underspend shown in the above table represents efficiencies against the PR08.
- (2) Track – expenditure in the year was lower due to a different assumption about the timing of when the volumes would be delivered in the PR08 compared to Network Rail's own plan.
- (3) Structures – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (4) Signalling – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (5) Telecoms – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (6) Electrification – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.

Statement 9a: England & Wales Summary analysis of renewals expenditure continued

in £m 2009/10 prices unless stated

- (7) Plant & machinery – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (8) Operational property – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (9) Discretionary - expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan, notably the assumptions regarding the Efficient Engineering Access programme on the West Coast.
- (10) Other - expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan, notably the assumptions regarding the West Coast programme.

Statement 12: England & Wales Other information

in £m 2009-10 prices unless stated

	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/costs – performance element			
Schedule 4			
Income	-		
Costs	(141)		
Net income/(cost)	(141)	(172)	31
Schedule 8			
Income	66		
Costs	(63)		
Net income	3	-	3
B) Net impact of Schedule 4 & 8			
Schedule 4			
Access charge supplement income	180	172	8
Income/ (costs)	(141)	(172)	31
Net income	39	-	39
Schedule 8			
Access charge supplement income	3	-	3
Income	3	-	3
Net income	6	-	6
C) Opex memorandum account			
In year			
Volume incentive	33		
Other	(12)		
Total logged up items – in year movements	21		

Comments:

- (1) Schedule 4 costs - Better planning of investment work meant there were reduced payments to train operators for disruption caused by that work.
- (2) Schedule 8 income - The proportion of passenger trains running on time rose to 91.5 per cent, ahead of the required regulatory output of 91.0 per cent and significantly better than last years level of 90.6 per cent. But the unprecedented weather in January meant that punctuality was difficult to deliver that month, and cost the Group over £40m in performance related compensation payment to customers. The severe winter weather caused 40 per cent of the delay minutes in January.

Statement 1: Scotland Summary regulatory financial performance

in £m 2009-10 prices unless stated otherwise

	Actual	PR08	Difference
Income	561	551	10
Expenditure			
Controllable opex	95	76	(19)
Non-controllable opex	32	28	(4)
Maintenance	92	106	14
Schedule 4 & 8	11	11	-
Renewals	226	337	111
Enhancements	178	176	(2)
Financing costs	117	119	2
Corporation tax	-	-	-
Total expenditure	751	853	102

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year. In March 2009, Network Rail published its CP4 Delivery Plan ("the Delivery Plan") which set out how Network Rail plans to deliver the outputs for the five year regulatory settlement at the appropriate cost. This has a different profile to the PR08 regulatory determination but allowed the business to live within the funding available. A comparison to the Delivery Plan is included in the Director's review.
- (2) Controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (3) Maintenance was less than the PR08. This is set out in more detail in Statement 8a.
- (4) Renewals expenditure is set out in more detail in Statement 9a and is lower than the PR08 mostly due to re-profiling of expenditure within the control period.

Statement 2a: Scotland RAB - regulatory financial position

in £m 2009-10 prices unless stated otherwise

A) Calculation of the Scotland RAB at 31 March 2010

	Actual	PR08	Difference
Opening RAB for the year (2006-07 prices) (1)	3,256	3,256	-
Indexation to 2008-09 prices	241	241	-
Opening RAB for the year (2008-09 prices)	3,497	3,497	-
Indexation for the year	10	10	-
Opening RAB (2009-10 prices)	3,507	3,507	-
Adjustments for the actual capex outturn in CP3 (refer to Appendix F)	7	7	-
Renewals (added to the RAB)	224	337	(113)
Enhancements (added to the RAB)	167	176	(9)
Renewals & Enhancements funded from RFF	(46)	(46)	-
Amortisation	(187)	(187)	-
Closing RAB at 31 March 2010	3,672	3,794	(122)

Note:

(1) This is the CP4 opening RAB as stated in the PR08 final determination.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until the end of the control period and we will continue to have regular discussions around the treatment of capital expenditure with the ORR.
- (2) Renewals – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan is mostly due to re-profiling of expenditure within the control period (refer to Statement 9a).
- (3) Enhancements – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan is mostly due to re-profiling of expenditure within the control period (refer to Statement 3).

Statement 2b: Scotland RAB - reconciliation of expenditure

in £m 2009-10 prices unless stated otherwise

Movements in 2009-10					
	Adjustment	Capitalised financing	Total at 31/03/10	PR08	Difference
Renewals					
Renewals in the determination			333	333	-
Adjustments to the PR08 determination					
Renewals/enhancement reallocation	1	-	1	1	-
CP3 deferrals to CP4	4	-	4	3	(1)
Renewals overheads	-	-	-	-	-
Adjusted PR08 determination (renewals)	5	-	338	337	(1)
Adjustments for the PR08 RAB roll forward policy					
Adjustments for non-delivery of outputs	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(102)	(2)	(104)	-	104
IOPI index adjustments	(8)	-	(8)	-	8
Adjustments for efficient over/under spend	(3)	-	(3)	-	3
25% retention of efficient over/under spend	1	-	1	-	(1)
Total Renewals (added to the RAB)	(107)	(2)	224	337	113
Adjustment for inefficient overspend			-	-	-
Adjustment for non-delivery of outputs			-	-	-
Adjustment for capitalised financing			3	-	(3)
Adjustment for 25% retention of efficient over/under spend			(1)	-	1
Total actual renewals expenditure (see statement 9a)			226	337	111
Enhancements					
Enhancements in PR08			177	177	-
Adjustments to the PR08 determination					
Renewals/enhancement reallocation	(1)	-	(1)	(1)	-
CP3 deferrals to CP4	4	-	4	-	(4)
Other adjustments	-	-	-	-	-
Adjusted PR08 determination (enhancements)	3	-	180	176	(4)
Adjustments for the PR08 RAB roll forward policy					
Adjustments for non-delivery of outputs	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(13)	-	(13)	-	13
Adjustments for efficient over/under spend	-	-	-	-	-
25% retention of efficient over/under spend	-	-	-	-	-
Adjustments relating to "funds"	-	-	-	-	-
Total PR08 enhancements (added to the RAB)	(10)	-	167	176	9
Non PR08 Enhancements					
Non PR08 enhancements expenditure qualifying for capitalised financing	-	-	-	-	-
Non PR08 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Total Non PR08 enhancements enhancement expenditure	-	-	-	-	-
Adjustments for amortisation of Non-PR08 enhancements	-	-	-	-	-
Total non PR08 enhancements (added to the RAB)	-	-	-	-	-
Total enhancements (added to the RAB)	(10)	-	167	176	9
Adjustment for NR first £50m retention			-	-	-
Adjustment for inefficient overspend on schemes with fixed price agreements			8	-	(8)
Adjustment for efficient overspend			-	-	-
Adjustments for non-delivery of outputs			-	-	-
Adjustment for capitalised financing			-	-	-
Adjustment for underspend on schemes with separate protocol			-	-	-
Adjustment for 25% retention of efficient over/under spend			-	-	-
Other adjustments			2	-	(2)
Non PR08 expenditure					
Third party funded schemes			16	-	(16)
Other enhancements not eligible for RAB addition			1	-	(1)
Total actual enhancement expenditure (see statement 3)			194	176	(18)

Statement 2b: Scotland RAB - reconciliation of expenditure continued

in £m 2009-10 prices unless stated otherwise

Memo items:

Memo item 1 - renewals over/under spend log	2009-10
Net volume under/over spend (efficient)	-
Net volume overspend (inefficient)	-
Net unit cost over/under spend	-
Total over/under spend renewals	-

Memo item 2 - Outstanding non-capex RAB additions	2009-10
Adjustments made to the RAB at 1 April 2009 (2008/09 prices)	484
Indexation for the year	1
Amortisation	(16)
Closing balance	469

Comments:

- (1) This schedule shows a reconciliation of the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB for:
 - f. Non-delivery of outputs;
 - g. Deferrals within the control period;
 - h. Changes in input process as indicated by the IOPI index (see below);
 - i. Efficient underspend; and
 - j. The effect of all of the above on capitalised financing.
- (3) IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until September 2010.

Statement 3: Scotland Analysis of enhancement capital expenditure

in £m 2009-10 prices unless stated otherwise

	Actual	Adjusted PR08	Difference
A) Enhancements included in PR08			
Schemes covered by a tailored protocol or fixed price agreement			
Airdrie to Bathgate	134	151	17
Total Schemes covered by a tailored protocol or fixed price agreement	134	151	17
Funds			
Tier 3 project development	-	3	3
Small projects fund	1	4	3
Total Funds	1	7	6
Other PR08 funded schemes			
Paisley Corridor improvements	21	40	19
Borders railway	-	-	-
Glasgow to Kilmarnock	13	15	2
Unallocated overheads	-	-	-
Total Other PR08 funded schemes	34	55	21
CP4 Delivery Plan	169	213	44
Schemes carried over from CP3			
WCRM	-	-	-
ERTMS	3	-	(3)
Cab fitment	1	-	(1)
Total Schemes carried over from CP3	4	-	(4)
Re-profiled expenditure due to programme deferral	-	(37)	(37)
Total PR08 funded enhancements	173	176	3

Statement 3: Scotland Analysis of enhancement capital expenditure continued

in £m 2009-10 prices unless stated otherwise

	Actual	Adjusted PR08	Difference
B) Investments not included in PR08			
Government sponsored schemes			
Edinburgh Glasgow improvements (EGIP)	1		(1)
Other	2		(2)
Total Government sponsored schemes	3	-	(3)
Network Rail sponsored schemes (income generating)			
Other income generating schemes	1		(1)
Total Network Rail sponsored schemes (income generating)	1	-	(1)
Network Rail sponsored schemes (cost saving)⁽¹⁾			
Other cost saving schemes	-		-
Total Network Rail sponsored schemes (cost saving)	-	-	-
Schemes promoted by third parties			
Other schemes promoted by third parties	-		-
Total Schemes promoted by third parties	-	-	-
Enhancement expenditure not meeting ORR criteria			
Outperformance expenditure	1		(1)
Schemes with pay back period within the control period	-		-
Total enhancement expenditure not meeting ORR criteria	1	-	(1)
Third party funded (PAYG)	16	-	(16)
Total non PR08 enhancement expenditure	21	-	(21)
Total enhancements (see statement 2b)	194	176	(18)

Notes:

- (1) Discussions on policy treatment of Network Rail sponsored cost saving schemes are taking place with the ORR to ascertain appropriate accounting.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this statement displays expenditure against all of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this statement.
- (2) The PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. Variances to the Delivery Plan are mostly due to re-profiling of expenditure.
- (3) No PR08 comparison has been provided by the ORR for part B) of this statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (5) Enhancement expenditure by Network Rail for Scotland in the year was £178m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£194m) less the PAYG schemes (£16m).

Statement 4: Scotland Net debt and financial ratios

in £m 2009-10 prices unless stated otherwise

	Actual	PR08	Difference
A) Reconciliation of net debt Scotland at 31 March 2010			
Opening net debt	2,081	2,281	200
Income			
Fixed charges	(110)	(109)	1
Total variable charges	(38)	(37)	1
Grant income	(364)	(355)	9
Total other single till income	(49)	(50)	(1)
Other income	-	-	-
Total income	(561)	(551)	10
Expenditure			
Controllable operating expenditure	95	76	(19)
Non-controllable operating expenditure	32	28	(4)
Maintenance expenditure	92	106	14
Schedule 4 & 8	11	11	-
Renewals expenditure	226	337	111
Enhancement expenditure	178	176	(2)
Total expenditure	634	734	100
Financing			
Interest expenditure on nominal debt - FIM covered	55	67	12
Interest expenditure on IL debt - FIM covered	14	11	(3)
Accretion on IL debt - FIM covered	32	18	(14)
Expenditure on the FIM	16	17	1
Interest expenditure on nominal debt - unsupported	-	6	6
Interest expenditure on IL debt - unsupported	-	-	-
Accretion on IL debt - unsupported	-	-	-
Total financing costs	117	119	2
Corporation tax	-	-	-
Other¹	27	-	(27)
Movement in net debt	217	302	85
Closing net debt	2,298	2,583	285

B) Financial Ratios

	2009-10
Adjusted interest cover ratio (AICR)	1.69
FFO/interest	3.89
Net debt/RAB (gearing)	62.6%
FFO/debt	14.4%
RCF/debt	10.7%

C) Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	5.4%
Average interest costs on IL debt - FIM covered (excl. indexation)	1.4%
FIM fee in %	0.8%
Average interest costs on nominal debt - unsupported	n/a
Average interest costs on IL debt (excl. accretion) - unsupported	n/a

(1) Other

Movements in working capital	-
Other (including changes in definition of debt in the Regulatory Accounting Guidelines)	27

Statement 4: Scotland Net debt and financial ratios continued

in £m 2009-10 prices unless stated otherwise

Comments:

- (1) This statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines.
- (2) Controllable opex is shown in more detail in Statement 7a.
- (3) Non-controllable opex is shown in more detail in Statement 7a.
- (4) Schedule 4 & 8 is shown in more detail in Statement 12.
- (5) Renewals expenditure is shown in more detail in Statement 9a.
- (6) Enhancements expenditure is shown in more detail in Statement 3.
- (7) Financing – Network Rail paid interest on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). Network Rail did not issue debt outside of the FIM. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08. Accretion is higher as RPI reached 4.4 per cent by March 2010.
- (8) Financial ratios – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines. ****Retained cash flow (RCF) is defined as FFO minus net interest.

- (9) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 62.6 per cent. The ORR imposes regulatory limits on this gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utilities face. The Great Britain gearing ratio is well within the limit in the revised licence condition of 70 per cent.
- (10) The Group's adjusted interest cover ratio (AICR) is a measure of the Group's ability to pay interest on its debt after taking into account all running costs including steady state renewals. Network Rail's AICR for the year relating to Scotland was 1.69. This demonstrates that the level of interest payable is affordable because the business generated operational revenue that was 69 per cent greater than the cash required to pay its net financing costs.

Statement 5: Scotland Financial Performance Statement

No statement is included in the Regulatory Financial Statements for the year ended 31 March 2010 as agreed with the ORR.

Statement 6a: Scotland Analysis of income

in £m 2009-10 prices unless stated otherwise

	Actual	PR08	Difference
Fixed charges	110	109	1
Variable charges			
Variable usage charge	11	10	1
Traction electricity charges	13	10	3
Electrification asset usage charge	1	1	-
Capacity charge	5	5	-
Station usage charges	-	-	-
Schedule 4 income (1)	8	11	(3)
Schedule 8 income (2)	-	-	-
Total gross variable charge income	38	37	1
Rebates paid	-	-	-
Total franchised track access income	148	146	2
Grant income	364	355	9
Total franchised track access and grant income	512	501	11
Other single till income			
Property income	11	6	5
Freight income	5	10	(5)
Open access income	-	-	-
Stations income	27	28	(1)
Depots income	6	6	-
Other	-	-	-
Total other single till income	49	50	(1)
Total income	561	551	10

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under Schedule 4 are disclosed in Statement 12.
- (2) Schedule 8 income represents passenger charter access charge supplement income. Net amounts receivable under Schedule 8 are disclosed in Statement 12.

Comments:

- (1) This statement shows a schedule of Network Rail's income compared to the PR08. Fixed charges and grants are largely fixed. The remaining income types are variable.
- (2) Traction electricity charges – these charges are determined by the prevailing electricity prices and thus Network Rail has minimal control over what these will be. In this respect traction electricity charges should be considered non-controllable income in the same manner that the traction electricity charges payable are classified as non-controllable opex.
- (3) Grant income – the variance arises from differences in the inflation assumed in the deed of grant with Transport Scotland compared to that used to uplift the PR08 from 06/07 prices.
- (4) Property income – the prevailing economic climate has reduced property income. However, individual property sites were sold in Scotland, as planned which enabled a positive performance to be achieved against the PR08.

Statement 6a: Scotland Analysis of income continued

in £m 2009-10 prices unless stated otherwise

- (5) Freight income – under the new pricing structure applicable in CP4, Network Rail would have to increase freight traffic significantly in order to achieve the PR08 assumption.

Statement 6c: Scotland Analysis of income by operator

in £m 2009-10 prices unless stated

Franchised Train Operating Companies

	Actual income in the year
	2009-10
Cross Country	
Variable usage charges	-
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	1
Fixed charges	-
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	1

	Actual income in the year
	2009-10
East Coast	
Variable usage charges	2
Traction electricity charges	2
Electrification asset usage charges	-
Capacity charges	1
Fixed charges	-
Station long term charges	-
Station QX	1
Station Facility Charge	-
Other charges	-
Total income	6

	Actual income in the year
	2009-10
ScotRail	
Variable usage charges	6
Traction electricity charges	10
Electrification asset usage charges	-
Capacity charges	2
Fixed charges	112
Station long term charges	2
Station QX	3
Station Facility Charge	-
Other charges	-
Total income	135

Statement 6c: Scotland Analysis of income by operator continued

in £m 2009-10 prices unless stated

	Actual income in the year
	2009-10
Virgin	
Variable usage charges	2
Traction electricity charges	2
Electrification asset usage charges	1
Capacity charges	-
Fixed charges	-
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	5

Consolidated Non-Franchised Train Operating Companies

	Actual income in the year
	2009-10
Variable usage charges	-
Traction electricity charges	-
Electrification asset usage charges	-
Capacity charges	-
Fixed charges	-
Station long term charges	-
Station QX	-
Station Facility Charge	-
Other charges	-
Total income	-

Consolidated Freight Operating Companies

	Actual income in the year
	2009-10
Variable usage charges	5
Traction electricity charges	1
Capacity charges	-
Performance regime	(1)
Coal spillage charge (incl. Investment charge)	-
Freight connection agreements and other income	-
Total income	5

Statement 6c: Scotland Analysis of income by operator continued

in £m 2009-10 prices unless stated

Notes:

- (1) Amounts reported for each company in this statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/FOCs, central adjustments and rounding. Amounts in these tables may not cast due to roundings.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 7a: Scotland Analysis of operating expenditure

in £m 2009/10 prices unless stated

	Actual	PR08	Difference
Controllable operating expenditure			
Signaller staff costs	20	17	(3)
Non-signaller staff costs	57	42	(15)
Staff incentives	7	5	(2)
Other employee related costs	12	6	(6)
Pensions	12	10	(2)
Consultants/contractors/agency	8	8	-
Insurance and claims	9	6	(3)
Accommodation, office, property expenses	11	9	(2)
Information management	4	4	-
Other	12	15	3
Total gross controllable operating expenditure	152	122	(30)
Less:			
Other operating income	(14)	(9)	5
Own work capitalised	(43)	(37)	6
Total controllable operating expenditure	95	76	(19)
Non-controllable operating expenditure			
Traction electricity costs	14	11	(3)
Cumulo rates	8	8	-
BT Transport Police costs	7	6	(1)
Rail Safety and Standards Board levy	1	1	-
ORR fees (incl. ORR licence fee and the railway safety levy)	2	2	-
Other (i.e. CIRAS fees)	-	-	-
Total non-controllable operating expenditure	32	28	(4)
Total operating expenditure	127	104	(23)

Comments:

- (1) Network Rail's costs are categorised between operating costs (as shown in the above table) and maintenance (refer to Statement 8a). Costs are classified between controllable operating expenditure and non-controllable operating expenditure. The ORR define non-controllable in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines.
- (2) Signaller staff costs & Non-signaller staff costs – Staff cost variances reflect lower reductions in staff costs over the last two years of CP3 than assumed by PR08. Additionally this year saw some one off transformation programme costs and staff costs increases that because of a lagged effect were agreed in the Autumn 2008 when prevailing inflation was higher than experienced through 2009-10. Around 500 staff were recruited across Great Britain in the year as Network Rail geared up for the challenge of delivering an £11bn enhancement programme over the next four years. Some of these costs were capitalised.
- (3) Network Rail uses staff incentives in driving performance improvements. Staff incentives were higher than assumed by the PR08 because performance was above the targeted levels. For example train punctuality improved significantly with 91.5% of trains running on time, up 0.9% in the year. Asset condition and cost efficiency also exceeded targets. Staff incentives included average payments to executive directors of £375k, to the next 250 of £50k and £1.8k for the remaining circa 36,000 employees.

Statement 7a: Scotland Analysis of operating expenditure continued

in £m 2009/10 prices unless stated

- (4) Other employee related costs – these costs are higher than the PR08 allowance due to additional redundancy and restructuring costs being incurred.
- (5) Pensions – these costs are higher than the PR08 largely because pension contribution rates were greater than those assumed in the PR08.
- (6) Insurance and claims – costs are lower than the PR08 allowance largely because there were fewer significant incidents on the network.
- (7) Accommodation, office, commercial property expenses – utility costs were higher than assumed by PR08.
- (8) Other operating income – this is by its nature a variable income. This is income earned from recovery of operating costs from third parties. This offsets increased gross operating expenditure.
- (9) Own work capitalised – this was higher due to more renewals work being delivered in-house by various reporting units within Network Rail. These additional recoveries help explain the higher costs relative to the PR08 allowance.
- (10) Traction electricity costs – these costs are considered non-controllable as they are determined by the prevailing prices in the utilities market. As noted in Statement 6a, the recovery of these costs through traction electricity income was significantly higher than the PR08 allowance.
- (11) BT Transport Police costs – maintaining and improving the safety and security of the travelling public will always be Network's Rail top priority. It has not been possible to achieve the cost savings assumed by the PR08.

Statement 8a (1): Scotland Summary analysis of maintenance expenditure

in £m 2009/10 prices unless stated

	Actual	PR08	Difference
Core Maintenance (1)			
Track	42	45	3
Structures	3	4	1
Signalling	15	12	(3)
Telecoms	6	8	2
Electrification	3	5	2
Plant & machinery	1	2	1
Operational property	-	-	-
Other	8	4	(4)
Sub-total	78	80	2
Indirect costs	4	19	15
Other costs	10	7	(3)
Total maintenance expenditure	92	106	14

Notes:

- (1) These costs only include direct costs.
- (2) Maintenance expenditure includes spend on West Coast Route Modernisation (WCRM) of £nil, National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.

Comments:

- (1) Network Rail's costs are categorised between operating costs (refer to Statement 7a) and maintenance (as shown in the above table). The maintenance costs above are shown as prescribed by the Regulatory Accounting Guidelines.
- (2) This year saw a good performance in maintenance where costs compared to last year were reduced by 7 per cent or £86m on a like for like basis across Great Britain through a combination of tight cost management, control of headcount, productivity improvements and reductions in waste. Improved management controls and planning led to a reduction in overtime costs and a reduction in the use of labour subcontractors for core work, saving £21m. We have invested in training over recent years and in 2009/10 we have utilised the increased skills of our employees to carry out tasks previously carried out by contractors. We are dedicated to reducing waste. For example, our fleet management team have achieved a significant reduction in vehicle numbers, by 10 per cent, which will lead to financial savings of over £10m.
- (3) On a net basis maintenance costs are 13 per cent lower than the PR08. The PR08 includes a much higher proportion of indirect costs than is present in the actuals.

Statement 8a (2): Scotland Summary analysis of maintenance headcount by activity

	Actual
Direct Maintenance	
Pway	775
Signalling	328
Telecoms	9
Electrification & Plant	101
Total direct	1,213
Indirect Maintenance	
Delivery Unit HQ	364
Route HQ	10
Other HQ	120
Total indirect	494
Total maintenance headcount	1,707

Notes:

- (1) The above data represents the headcount in the maintenance function. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are not borne by the maintenance function. Therefore, the two sets of data are not comparable.
- (2) The above data reflects full time equivalent permanent staff.

Statement 9a: Scotland Summary analysis of renewals expenditure

in £m 2009/10 prices unless stated

	Actual	PR08	Difference
Track	62	73	11
Structures	71	87	16
Signalling	20	24	4
Telecoms	35	51	16
Electrification	1	13	12
Plant and machinery	6	14	8
Operational property	21	54	33
Other renewals			
Information management	8	8	-
Corporate offices	1	1	-
Discretionary investment	-	8	8
Other miscellaneous	1	4	3
Sub-total other renewals	10	21	11
Total renewals expenditure	226	337	111

Notes:

- (1) Renewals includes spend on West Coast Route Modernisation (WCRM) of £46m. All expenditure for National Stations Improvement Programme (NSIP), Performance fund and the seven day railway is shown within Enhancements (refer to Statement 3).

Commentary:

- (1) Overall, the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. A comparison to the Delivery Plan is included in the Director's review. The Director's review also includes an analysis of how the timing differences between the PR08 and the Business Plan unwind over the control period. It is too early in the control period to consider that the any of the underspend shown in the above table represents efficiencies against the PR08.
- (2) Track – expenditure in the year was lower due to a different assumption about the timing of when the volumes would be delivered in the PR08 compared to Network Rail's own plan.
- (3) Structures – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (4) Telecoms – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (5) Electrification – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (6) Plant & machinery – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.

Statement 9a: Scotland Summary analysis of renewals expenditure continued

in £m 2009/10 prices unless stated

- (7) Operational property – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (8) Discretionary - expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.

Statement 12: Scotland Other information

in £m 2009-10 prices unless stated

	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/cost – performance element			
Schedule 4			
Income	-		
Cost	(10)		
Net income/(cost)	(10)	(11)	1
Schedule 8			
Income	1		
Cost	(2)		
Net cost	(1)	-	(1)
B) Net impact of Schedule 4 & 8			
Schedule 4			
Access charge supplement income	8	11	(3)
Income/(cost)	(10)	(11)	1
Net cost	(2)	-	(2)
Schedule 8			
Access charge supplement income	-	-	-
Cost	(1)	-	(1)
Net cost	(1)	-	(1)
C) Opex memorandum account			
In year			
Volume incentive	3		
Other	-		
Total logged up items – in year movements	3		

Comments:

- (1) Schedule 4 costs - Better planning of investment work meant there were reduced payments to train operators for disruption caused by that work.
- (2) Schedule 8 income – the unprecedented weather in January meant that punctuality was difficult to deliver that month resulting in higher compensation payments.

Appendices to the Regulatory Financial Statements

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2010

	£m	£m
Valuations per statutory accounts at 31 March 2010		
Property, plant and equipment – the railway network	36,629	
Investment properties	764	
Unamortised Capital grants	(1,736)	
		35,657
Adjustment for cashflow differences in the Delivery Plan compared to Periodic Review 2008		72
RAB valuation at 31 March 2010 (Statement 2a)		35,729

Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory Financial Statements and Statutory Accounts

Year ended 31 March 2010

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2010 per the regulatory statements (Statement 1)	1,425	1,071	2,496
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets ⁽¹⁾	1,141	-	1,141
Reactive maintenance expenditure	-	69	69
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	(11)	-	(11)
CTRL	(11)	-	(11)
Other	3		3
	1,122	69	1,191
Operating and maintenance expenditure for year ended 31 March 2010 per the statutory accounts	2,547	1,140	3,687

Notes:

(1) This includes depreciation expenses of £1,193m and capital grant amortisation of £52m.

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2010

	£m	£m
Regulatory income for year ended 31 March 2010 (Statements 1 and 6a)		5,817
Differences between regulatory income and statutory turnover		
Performance regime differences		(149)
Turnover per the statutory accounts for year ended 31 March 2010		5,668

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2010

	£m	£m
Regulatory debt at 31 March 2010 (Statement 4)		22,819
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Change in fair value of net debt	544	
Foreign exchange differences	475	
		1,019
Net debt per the statutory accounts at 31 March 2010		23,838

Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure

Year ended 31 March 2010

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2010 (Statement 1)		3,582
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	313	
Reactive maintenance	(69)	
Capitalised interest	100	
Investment property schemes	(13)	
Other	(4)	
		327
Capital expenditure per the statutory accounts for the year ended 31 March 2010		3,909

Appendix F

Network Rail Infrastructure Limited
Adjustments to closing CP3
Regulatory Asset Base
31 March 2009

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Statement 2b: GB RAB and net debt analysis (Regulatory financial position)

in £m 2008/09 prices unless stated

	31 March 2009	Adjustments (see following page)							Revised 31 March 2009
		1	2	3	4	5	6	7	
A) Calculation of the regulatory accounts GB RAB at 31 March 2009									
Opening RAB for the year ¹ (2007/08 prices)	20,824								20,824
Indexation	626								626
Opening RAB (2008/09 prices)	21,450	-	-	-	-	-	-	-	21,450
Amortisation on 1 April 2004 RAB	(6,530)	-	-	-	-	-	-	-	(6,530)
Opening RAB after amortisation	14,920	-	-	-	-	-	-	-	14,920
Adjustments									
Signalling review	164	-	-	-	-	-	-	-	164
Capex outturn 2003/04	(469)	-	-	-	-	-	-	-	(469)
Opening net debt at 1 April 2004	-	-	-	-	-	-	-	-	-
Investments disallowed by ORR	-	-	-	-	-	-	-	-	-
EC4T adjustment	39	-	-	-	-	-	-	-	39
RAB after prior year adjustments	14,654	-	-	-	-	-	-	-	14,654
Renewals and enhancements (see Statement 2a for more detail)									
Renewals in ACR 2003	14,272	-	-	-	-	-	-	-	14,272
Enhancements in ACR 2003	2,609	-	-	-	-	-	-	-	2,609
Variance on emerging cost enhancements	(322)	-	-	-	-	-	-	-	(322)
Investments not funded in ACR 2003 ²	1,497	-	-	(45)	(28)	(13)	(10)	(1)	1,340
Total enhancements	3,784	-	-	(45)	(28)	(13)	(10)	(1)	3,687
Deferrals of ACR 2003 renewals and enhancements	(1,018)	(255)	6	-	-	-	-	-	(1,267)
Total renewals and enhancements	17,038	(255)	6	(45)	(28)	(13)	(10)	(1)	16,692
Amortisation on post April 2004 investment in ACR 2003	(1,851)	-	-	-	-	-	-	-	(1,851)
Net addition to the RAB from renewals and enhancements	15,187	(255)	6	(45)	(28)	(13)	(10)	(1)	14,841
Closing RAB at 31 March 2009	29,841	(255)	6	(45)	(28)	(13)	(10)	(1)	29,495
B) Adjustments to the RAB at 1 April 2009³									
Revenue deferral	3,667								3,667
Asset stewardship index forecast for 1 April 2009	364								364
Volume incentive forecast for 1 April 2009	582								582
Total adjustments	4,613								4,613
C) Net debt analysis									
Net debt⁴	20,890								20,890
Net debt to RAB ratio	70.0%								70.8%

Statement 2b: GB RAB and net debt analysis (Regulatory financial position) continued

¹ The opening RAB at 1 April 2004 (2003/04 prices) was £18,143m.

² Investments not funded in ACR 2003 category include NR self-financing schemes.

³ Adjustments to the RAB refer to the amount earned over the entire Control Period to be added at 1 April 2009.

⁴ Of the total net debt balance at 31 March 2009 detailed above, £20,803m is owed to Network Rail Infrastructure Finance PLC, the special purpose financing vehicle that Network Rail has established to facilitate its long term Debt Issuance Programme and £Nil is owed to Network Rail MTN Finance PLC.

Adjustments

1. Additional deferrals identified since PR08 publication.
2. Capitalised financing amendment arising from Adjustment 1 above.
3. NR and customer promoted self-financed investment schemes do not attract capitalised financing as the schemes are funded by opex savings/ increased revenue.
4. NR and customer promoted self-financed schemes attract amortisation which reduces the RAB.
5. Removal of grant or renewals funded items from enhancements listing.
6. CP4 development spend on schemes that were not on the ORR early start list moved to Outperformance fund.
7. Capitalised financing amendment arising from Adjustments 5 and 6 above.

Statement 3: GB Analysis of RAB capital expenditure

in £m 2008/09 prices unless stated

	31 March 2009	Net spend in the year Adjustments (see following page)				Revised 31 March 2009
		1	2	3	4	
A) Renewals included in ACR 2003	3,144					3,144
B) Enhancements included in ACR 2003						
Health and safety schemes						
Train protection schemes - ERTMS	34	-	-	-	-	34
Light Maintenance Depot pollution prevention	10	-	-	-	-	10
Other Safety & Environment plan schemes	133	-	-	-	-	133
Total health and safety schemes	177	-	-	-	-	177
Emerging cost enhancements (transition schemes)						
Power Supply Upgrade (PSU)	-	-	-	-	-	-
Southern Region New Trains Programme (non-PSU)	1	-	-	-	-	1
CTRL blockade	-	-	-	-	-	-
Total emerging cost enhancements	1	-	-	-	-	1
Telecoms enhancements	9	-	-	-	-	9
West Coast Route Modernisation enhancements	260	-	-	-	-	260
Total enhancements in ACR 2003	447	-	-	-	-	447
C) Investments not included in ACR 2003						
Government sponsored schemes						
Disability Discrimination Act compliance	32	-	-	-	-	32
Kings Cross	61	-	-	-	-	61
Thameslink	295	-	-	-	-	295
Airdrie to Bathgate	71	-	-	-	-	71
Glasgow to Kilmarnock	13	-	-	-	-	13
Crossrail	11	-	-	-	-	11
Other Government sponsored schemes	3	2	-	-	-	5
CP4 development schemes:						
St Pancras High Speed 1	-	18	-	-	-	18
Glasgow Airport Rail Link	-	6	-	-	-	6
Reading	-	17	-	-	-	17
Bletchley remodelling	-	5	-	-	-	5
Intercity Express Programme	-	3	-	-	-	3
National Station Improvement Programme	-	5	-	-	-	5
Other allowable CP4 early start schemes	-	1	-	-	-	1
Total government sponsored schemes	486	57	-	-	-	543
Network Rail sponsored schemes/ CP4 Development	157	(55)	(10)	(33)	(12)	47
Network Rail Discretionary Fund	144	(2)	-	9	(1)	150
Schemes promoted by third parties	82	-	-	24	-	106
Total investments not included in ACR 2003 allowance¹	869	-	(10)	-	(13)	846
Total renewals and enhancements	4,460	-	(10)	-	(13)	4,437

¹ Separate reports are provided to the ORR in addition to the Regulatory Financial Statements, showing the break down between schemes and outputs.

Statement 3: GB Analysis of RAB capital expenditure continued

Adjustments

1. Movement of allowable CP4 early start schemes to government sponsored.
2. Movement of CP4 schemes not included on the early start list to outperformance.
3. Other reclassifications.
4. Movement of grant or renewals funded items previously classified as enhancements.

DISAGGREGATED FINANCIAL INFORMATION

Statement 2b: Scotland RAB (Regulatory financial position)

in £m 2008/09 prices unless stated

	31 March 2009	Adjustment (see below)	Revised 31 March 2009
A) Calculation of the regulatory accounts Scotland RAB at 31 March 2009			
Opening RAB for the year¹ (2007/08 prices)	2,659		2,659
Indexation	79		79
Opening RAB (2008/09 prices)	2,738		2,738
Amortisation on 1 April 2004 RAB	(406)		(406)
Opening RAB after amortisation	2,332		2,332
Adjustments			
Capex outturn 2003/04	(8)		(8)
EC4T adjustment	-		-
RAB after prior year adjustments	2,324		2,324
Renewals and enhancements (see Statement 2a for more detail)			
Renewals in Indicative ACR 2003	735	-	735
Enhancements in Indicative ACR 2003	-	-	-
Variance on emerging cost enhancements	-	-	-
Investments not funded in ACR 2003	112	11	123
Total enhancements	112	11	123
Deferrals of ACR 2003 renewals and enhancements	(38)	-	(38)
Total renewals and enhancements	809	11	820
Amortisation on post April 2004 investment in Indicative ACR 2003	(124)	-	(124)
Net addition to the RAB from renewals and enhancements	685	11	696
Closing RAB at 31 March 2009	3,009	11	3,020
B) Adjustments to the RAB at 1 April 2009²			
Revenue deferral	409		409
Asset stewardship index forecast for 1 April 2009	41		41
Volume incentive forecast for 1 April 2009	34		34
Total adjustments	484		484

¹ The opening RAB at 1 April 2006 (2005/06 prices) was £2,455m.

² Adjustments to the RAB refer to the forecast amount earned over the entire Control Period to be added at 1 April 2009.

Adjustment: Additional schemes attributed to Scotland following detailed review.

Statement 3: Scotland Analysis of RAB capital expenditure

in £m 2008/09 prices unless stated

	31 March 2009	Net spend in the year Adjustments (see below)		Revised 31 March 2009
		1	2	
A) Renewals included in Indicative ACR 2003	291			291
B) Enhancements included in Indicative ACR 2003				
Health and safety schemes				
Safety & Environment plan schemes	10	10	-	20
Total health and safety schemes	10	10	-	20
Telecoms enhancements	1	-	-	1
West Coast Route Modernisation enhancements	2	-	-	2
Total enhancements in Indicative ACR 2003	13	10	-	23
C) Investments not included in Indicative ACR 2003 allowance				
Government sponsored schemes				
Disability Discrimination Act compliance	1	5	-	6
Airdrie to Bathgate	71	-	-	71
Glasgow Airport Rail Link	-	-	6	6
Glasgow to Kilmarnock	13	-	-	13
Total government sponsored schemes	85	5	6	96
Network Rail sponsored schemes/ CP4 Development	4	3	(6)	1
Network Rail Discretionary Fund	4	3	-	7
Total investments not included in Indicative ACR 2003 allowance¹	93	11	-	104
Total renewals and enhancements	397	21	-	418

¹ Separate reports are provided to the ORR in addition to the Regulatory Financial Statements, showing the break down between schemes and outputs.

² The expenditure in Scotland during the year under the categories: Emerging cost enhancements and Schemes promoted by third parties were less than £1m and so are not presented in the table above.

Adjustments

1. Additional schemes allocated to Scotland following detailed review.
2. Reclassification of schemes between funding categories.

Statement 2b: England & Wales RAB (Regulatory financial position)

in £m 2008/09 prices unless stated

	31 March 2009	Adjustments (see following page)								Revised 31 March 2009
		1	2	3	4	5	6	7	8	
A) Calculation of the regulatory accounts										
England & Wales RAB at 31 March 2009										
Opening RAB for the year ¹ (2007/08 prices)	22,284									22,284
Indexation	636									636
Opening RAB (2008/09 prices)	22,920									22,920
Amortisation on 1 April 2004 RAB	(3,225)									(3,225)
Opening RAB after amortisation	19,695									19,695
Adjustments										
Signalling review	412									412
Capex outturn 2003/04	(72)									(72)
EC4T adjustment	6									6
RAB after prior year adjustments	20,041									20,041
Renewals and enhancements (see Statement 2a for more detail)										
Renewals in Indicative ACR 2003	6,869									6,869
Enhancements in Indicative ACR 2003	888	-	-	-	-	-	-	-	-	888
Variance on emerging cost enhancements	(13)	-	-	-	-	-	-	-	-	(13)
Investments not funded in ACR 2003 ²	1,318	-	-	(45)	(28)	(13)	(10)	(1)	(11)	1,210
Total enhancements	2,193	-	-	(45)	(28)	(13)	(10)	(1)	(11)	2,085
Deferrals of ACR 2003 renewals and enhancements	(980)	(255)	6	-	-	-	-	-	-	(1,229)
Total renewals and enhancements	8,082	(255)	6	(45)	(28)	(13)	(10)	(1)	(11)	7,725
Amortisation on post April 2004 investment in Indicative ACR 2003	(1,291)	-	-	-	-	-	-	-	-	(1,291)
Net addition to the RAB from renewals and enhancements	6,791	(255)	6	(45)	(28)	(13)	(10)	(1)	(11)	6,434
Closing RAB at 31 March 2009	26,832	(255)	6	(45)	(28)	(13)	(10)	(1)	(11)	26,475
B) Adjustments to the RAB at 1 April 2009³										
Revenue deferral	3,258									3,258
Asset stewardship index forecast for 1 April 2009	323									323
Volume incentive forecast for 1 April 2009	548									548
Total adjustments	4,129									4,129

¹ The opening RAB at 1 April 2006 (2005/06 prices) was £20,573m.

² Investments not funded in ACR 2003 category include NR self-financing schemes.

³ Adjustments to the RAB refer to the amount earned over the entire Control Period to be added at 1 April 2009.

Statement 2b: England & Wales RAB (Regulatory financial position) continued

Adjustments

1. Additional deferrals identified since PR08 publication.
2. Capitalised financing amendment arising from Adjustment 1 above.
3. NR and customer promoted self-financed investment schemes do not attract capitalised financing as the schemes are funded by opex savings/ increased revenue.
4. NR and customer promoted self-financed schemes attract amortisation which reduces the RAB.
5. Removal of grant or renewals funded items from enhancements listing.
6. CP4 development spend on schemes that were not on the ORR early start list moved to Outperformance fund.
7. Capitalised financing amendment arising from Adjustments 5 and 6 above.
8. Additional schemes attributed to Scotland following detailed review.

Statement 3: England & Wales Analysis of RAB capital expenditure

in £m 2008/09 prices unless stated

		Net spend in the year Adjustments Net spend in the year (see following page)					
	31 March 2009	1	2	3	4	5	Revised 31 March 2009
A) Renewals included in Indicative ACR 2003	2,853						2,853
B) Enhancements included in Indicative ACR 2003							
<i>Health and safety schemes</i>							
Train protection schemes - ERTMS	34	-	-	-	-	-	34
Light Maintenance Depot pollution prevention	10	-	-	-	-	-	10
Other Safety & Environment plan schemes	123	-	-	-	-	(10)	113
Total health and safety schemes	167	-	-	-	-	(10)	157
<i>Emerging cost enhancements (transition schemes)</i>							
Power Supply Upgrade (PSU)	-	-	-	-	-	-	-
Southern Region New Trains Programme (non-PSU)	1	-	-	-	-	-	1
CTRL blockade	-	-	-	-	-	-	-
Total emerging cost enhancements	1	-	-	-	-	-	1
Telecoms enhancements	8	-	-	-	-	-	8
West Coast Route Modernisation enhancements	258	-	-	-	-	-	258
Total enhancements in Indicative ACR 2003	434	-	-	-	-	(10)	424
C) Investments not included in Indicative ACR 2003 allowance							
<i>Government sponsored schemes</i>							
Disability Discrimination Act compliance	31	-	-	-	-	(5)	26
Kings Cross	61	-	-	-	-	-	61
Thameslink	295	-	-	-	-	-	295
Crossrail	11	-	-	-	-	-	11
Other Government sponsored schemes	3	2	-	-	-	-	5
<i>CP4 development schemes:</i>							
St Pancras High Speed 1	-	18	-	-	-	-	18
Reading	-	17	-	-	-	-	17
Bletchley remodelling	-	5	-	-	-	-	5
Intercity Express Programme	-	3	-	-	-	-	3
National Station Improvement Programme	-	5	-	-	-	-	5
Other allowable CP4 early start schemes	-	1	-	-	-	-	1
Total government sponsored schemes	401	51	-	-	-	(5)	447
Network Rail sponsored schemes/ CP4 Development	153	(49)	(10)	(33)	(12)	(3)	46
Network Rail Discretionary Fund	140	(2)	-	9	(1)	(3)	143
Schemes promoted by third parties	82	-	-	24	-	-	106
Total investments not included in Indicative ACR 2003 allowance¹	776	-	(10)	-	(13)	(11)	742
Total renewals and enhancements	4,063	-	(10)	-	(13)	(21)	4,019

¹ Separate reports are provided to the ORR in addition to the Regulatory Financial Statements, showing the break down between schemes and outputs

Statement 3: England & Wales Analysis of RAB capital expenditure continued

Adjustments

1. Movement of allowable CP4 early start schemes to government sponsored.
2. Movement of CP4 schemes not included on the early start list to outperformance.
3. Other reclassifications.
4. Movement of grant or renewals funded items previously classified as enhancements.
5. Additional schemes attributed to Scotland following detailed review.