

Network Rail Infrastructure Limited
Regulatory Financial Statements

Year ended 31 March 2005

Contents

DIRECTORS' REVIEW	2
STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	7
INDEPENDENT AUDITORS' REPORT TO THE COMPANY AND THE ORR.....	8
ACCOUNTING POLICIES.....	10
STATEMENT 1: FINANCIAL PERFORMANCE.....	11
STATEMENT 2: RAB ADJUSTMENTS AND ACCRUALS.....	12
STATEMENT 3: ANALYSIS OF CAPITAL EXPENDITURE FOR THE RAB.....	14
STATEMENT 4: ANALYSIS OF OPERATING, MAINTENANCE & RENEWALS EXPENDITURE.....	15
STATEMENT 5: ANALYSIS OF INCOME.....	16
APPENDIX A: RECONCILIATION OF RAB TO STATUTORY RAILWAY NETWORK FIXED ASSETS VALUATION.....	17
APPENDIX B: RECONCILIATION OF OPERATING AND MAINTENANCE EXPENDITURE BETWEEN REGULATORY STATEMENTS AND STATUTORY ACCOUNTS.....	17
APPENDIX C: RECONCILIATION OF REGULATORY INCOME TO STATUTORY TURNOVER.....	18

Directors' Review

The Directors of Network Rail Infrastructure Limited ('the Company') are pleased to present the Regulatory Financial Statements for the year ended 31 March 2005. These are the first Regulatory Financial Statements produced in the five year control period covered by the Office of Rail Regulation ('ORR') Access Charges Review 2003 Final Conclusions ('ACR 2003').

The basis of preparation of these financial statements is different to the basis used to prepare the statutory financial statements and is explained in detail below and in the accounting policies note.

ACR 2003

The ACR 2003 was concluded in December 2003, with the ORR determining Network Rail's income for the five year period from 1 April 2004 to 31 March 2009. The successful conclusion of the ACR 2003 was important in that it gave the Company certainty regarding its medium term future income and clarified the outputs expected and at what cost.

It also requires the Company to deliver an unprecedented 31% improvement in efficiency over the next five years alongside significant increases in train punctuality.

In March 2004 the ORR published an additional document approving Network Rail's proposed financing arrangements. Network Rail had accepted that a larger proportion of its income would come in direct grants from the Strategic Rail Authority ('SRA') rather than in the form of track access charges paid by train operators. In addition Network Rail agreed with SRA and ORR that some of its allowed income in 2004/05 and 2005/06 could be reprofiled to later years with the shortfall in the first two years of the control period being financed through additional borrowings. The amounts deferred in the two years will total £3.4bn.

Financial performance

Statement 1 details the Company's financial performance against the ORR's determination for the year ended 31 March 2005.

Operating expenditure

Operating expenditure totalled £1,181m, a £67m saving against the ORR's determination of £1,248m.

The challenge of meeting our efficiency targets set by the ORR has been our key focus. Savings have been delivered by focusing on strong budgetary control at all times and through a conscious drive to minimise spend in specific areas such as consultancy and agency staff. Further efficiencies will need to be delivered for the remainder of the control period in order to meet fully the ORR challenge.

Maintenance

Maintenance costs of £1,271m were £25m less than the ORR's determination of £1,296m.

In terms of maintenance we have made good progress in delivering efficiencies. We continue to develop our understanding of our cost drivers and have made substantial further progress towards achieving a meaningful unit costing structure for maintenance work. Bringing maintenance in-house has been a success on both operational and financial fronts, with core maintenance costs already reduced.

Schedule 4 costs

Total Schedule 4 costs were £59m, a saving of £8m against the ORR's determination of £67m.

This was as a result of an underspend on investment schemes against the ORR determination (see Capital expenditure below) which led to reduced possession costs.

Schedule 8 costs

The 17% reduction in train delays attributable to Network Rail has resulted in Schedule 8 receivable of £72m compared to the ORR determination which assumed costs of £16m, an overall saving of £88m.

A large number of initiatives have contributed to this notable improvement, aided by the interim review recalibration. The decision to bring rail maintenance contracts in-house and the introduction of integrated control centres with train operators are worthy of specific mention. Both of these changes have streamlined day to day decision making in the interests of passengers. In addition, the record investment in the rail infrastructure with nearly double the rate of track renewals compared to five years ago, is contributing to a significant reduction in the number of infrastructure failures across the network.

Other income

Single till and other income was in line with the ORR determination for the year at £723m. Shortfalls on freight income were offset primarily by additional open access income.

Variable charge income

Variable charge income was £25m higher than the ORR determination. Reduced electric current for traction (EC4T) income charged to the train operators was offset by increased usage charges and capacity charges.

Grant and rebate

Actual grant income from the SRA totalled £2,058m. This is significantly less than that assumed in the ACR 2003 because of the reprofiling of income referred to in the ACR 2003 section above. This reprofiling was partially offset by a £250m rebate of fixed track access charges, as in the year under review the Company rebated £250m of fixed track access income to train operating companies matching an identical sum of Network Grant received from the SRA.

Regulatory Asset Base ("RAB")

The RAB at 31 March 2005 totalled £20,462m and this figure is provided in Statement 2. This has been calculated and presented in the format laid out in the Regulatory Accounting Guidelines. The closing RAB from the Final Conclusions (£17,696m in 02/03 prices) is presented first in 03/04 prices (£18,143m) and then uplifted to 04/05 prices (£18,768m). Amortisation on the opening RAB of £1,314m is provided on a 7% reducing balance basis.

Two significant adjustments agreed between the Company and ORR are made to the opening RAB. The underspend against the full year forecast at the date the Final Conclusions were published in December 2003 (£298m excluding the effect of capitalised financing) is deducted from the value of the opening RAB, as is the adjustment for the difference between the Company's net debt assumed in the Final Conclusions and the Company's actual net debt at 31 March 2004 (£325m excluding the effect of capitalised financing)¹.

¹ See <http://www.rail-reg.gov.uk/server/show/ConMediaFile.7109>

The allowances for renewals (£2,999m) and enhancements (£1,086m) from the Final Conclusions are added to the RAB (in 04/05 prices), and amortisation is provided on these additions at 3.33% resulting in a £136m reduction to the RAB. The underspend variance on emerging cost enhancements (Southern Power Upgrade, Southern Region New Trains Programme, CTRL Blockade, and Thameslink 2000) is deducted from the value of the RAB in accordance with the policy set out in paragraph 3.28 of the Regulatory Accounting Guidelines (RAGs). The value of this underspend to 31 March 2005 was £330m including the effect of capitalised financing. Any overspends on emerging cost enhancements in subsequent years of the control period will be added to the RAB as incurred. An additional £52m (including the effect of capitalised financing) of enhancements not funded in the ORR determination have been proposed for logging up in the RAB, although the ORR has yet to give its approval to these schemes. This total includes the purchase of operational property from former infrastructure maintenance contractors, performance enhancement schemes and minor enhancement schemes at stations.

The net addition to the RAB in respect of renewals and enhancements was £3,671m giving a closing RAB valuation of £20,462m. This valuation is reconciled to the Railway Network fixed asset valuation presented in the statutory accounts for the year ended 31 March 2005 in Appendix A. The full value of the £1.7bn deferred SRA revenue grant discussed above (under ACR 2003) is included in the statutory railway network fixed asset valuation at 31 March 2005.

Capital expenditure

Statement 3 contains detail of capital expenditure against the ORR determination. Actual renewals totalled £2,653m, an underspend of £346m against the ORR determination. Enhancement expenditure was £702m, representing £652m of enhancements within ACR 2003, an underspend of £434m compared to the determination. This underspend was offset by the £50m (excluding the effect of capitalised financing) of enhancements delivered outside the determination discussed above to give a net underspend of £384m.

Our approach to investment is built on the foundations of strong budgetary control and detailed value analysis. Maximising the value of the pound in the ground underpins all our investment appraisal and planning and we continue to seek increased value from our investment expenditure. This has led to what may look like a slow start towards meeting the ORR determination in terms of renewals and enhancements but we make no apology for delaying spend to optimise efficiency. This year has seen major efficiencies delivered on the Southern Power Supply Upgrade and other savings elsewhere. Our March 2005 business plan underlines our intention to deliver the ORR five year targets which will continue the unprecedented levels of investment in the network.

The most significant renewals underspends were in the areas of signalling and plant and machinery. The split by asset category is disclosed in Statement 4.

Debt

Debt at 31 March 2005 was £15,646m. This was after the deduction of unamortised discount and fees of £142m. The debt to RAB ratio at 31 March 2005 was 77% and reflects the reprofiling of grant income discussed above. The Network Rail Business Plan published on 31 March 2005 forecasts further increase in debt in 2005/06 following another year of grant income reprofiling. Debt is forecast to peak at the end of the control period at approximately £20.4bn.

The current year has seen the successful launch of the Network Rail Debt Issuance Programme ("DIP") through a special purpose financing vehicle, Network Rail Infrastructure Finance PLC ("NRIF"). NRIF was incorporated on 31 March 2004, entered into documentation to facilitate debt issuance on 29 October 2004 and received the proceeds from its first issuance on 29 November 2004.

NRIF is not a member of the Network Rail group or related to or controlled by the SRA. However, the Company is consolidated as a quasi-subsiary in the consolidated accounts of Network Rail Infrastructure Limited (NRIL) and its debt is therefore included in NRIL's overall net debt.

The launch of the DIP marked a major milestone in the development of Network Rail's finances and allows access, through a single platform, to the widest possible sources of funding including the long-term capital markets. By giving Network Rail access to the widest possible sources of funding at the lowest possible cost, it will provide a stable base for funding a continuing programme of long-term investment in the national rail network.

The Debt Issuance Programme is supported by a financial indemnity from the SRA which expires in 2052, who, in turn, benefit from a Letter of Comfort from the Secretary of State for Transport. The Railways Bill was passed on 7 April 2005 and the obligation passed from the SRA to the Secretary of State for Transport on 26 June 2005.

Since commencement of trading, £3.7bn of bonds have been issued, the majority being fixed rate sterling and index linked sterling bonds. Any non-sterling issuance under the programme is swapped into fixed sterling interest rates as at the balance sheet date to protect against movements in interest and foreign exchange rates.

Statement under Condition 29 of the Network Licence

Under Condition 29 of Network Rail's network licence, the licence holder shall provide, from time to time as requested by the Regulator and in any event every year in the regulatory financial statements it prepares pursuant to Condition 22, 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 paragraph 1 and (where applicable) with paragraph 2(b) of this Condition and, if so requested by the Regulator, evidence in support of that confirmation. In this regard, the debt to RAB ratio at 31 March 2005 at 77% complies with the limits set out in Condition 29 of our network licence. We can also confirm that, as forecast in the aforementioned Business Plan, the debt to RAB ratio is likely to remain compliant in the current financial year.

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 22 of the Licence and the statements must be prepared in accordance with detailed Regulatory Accounting Guidelines issued by ORR under Condition 22 on 24 May 2005.

The regulatory financial statements are prepared on a basis which differs from United Kingdom generally accepted accounting principles ("UK GAAP"). Network Rail Infrastructure Limited's statutory accounts for the year ended 31 March 2005 have been filed with the Registrar of Companies and were prepared in accordance with UK GAAP. Appendix A includes a reconciliation of the railway network valuation in the statutory accounts to the RAB reported in the regulatory financial statements. Appendices B and C provide a reconciliation of operating and maintenance expenditure and income between the regulatory statements and the statutory accounts.

The directors' report and the regulatory financial statements were approved by the Board of Directors on 20 July 2005.

Signed on behalf of the Board of Directors:

A handwritten signature in blue ink, appearing to read 'John Armitt'.

John Armitt Director

A handwritten signature in blue ink, appearing to read 'Ronald Henderson'.

Ron Henderson Director

Statement of Directors' Responsibilities

The directors are responsible for preparing regulatory financial statements in accordance with Condition 22 of the Network Licence dated 31 March 1994, as amended.

In preparing those regulatory financial statements, the directors are required by Condition 22 to:

- prepare the regulatory financial statements in respect of each year ended 31 March and (save as otherwise provided in Condition 22 or the Regulatory Accounting Guidelines) thereafter on a consistent basis in respect of each succeeding 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 Regulator's valuation of the Regulatory Asset Base for the purpose of determining access charges; and
 - (ii) the Determination Assumptions for the corresponding period as defined in Condition 22;

(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, expenditure, profits and losses for the period with the Determination Assumptions;
- include all details reasonably necessary to reconcile the Regulatory Asset Base with the annual statutory accounts for the same period.

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' report 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

We have audited the regulatory financial statements of Network Rail Infrastructure Limited for the year ended 31 March 2005 which comprise the statement of financial performance, the statement of RAB adjustments and accruals, the statements analysing capital expenditure, operating, maintenance and renewals expenditure and income, the accounting policies and the related Appendices A, B and C.

This report is made, in accordance with our terms of engagement dated 19 July 2005, solely to the Company and the Office of Rail Regulation ("ORR"), in order to meet the requirement of paragraph 9 of Condition 22 of Network Rail Infrastructure Limited's network licence dated 31 March 1994 as amended on 2 July 2004 ("Condition 22"). 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 paragraph 9 of Condition 22 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 therein which differ from United Kingdom generally accepted accounting principles ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in the financial statements prepared in accordance with the Companies Act 1985.

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 22 and the Regulatory Accounting Guidelines issued thereunder on 24 May 2005. Our responsibility, as set out in our terms of engagement, is to audit the regulatory financial statements in accordance with those terms, relevant United Kingdom auditing standards, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities', Condition 22 and the Regulatory Accounting Guidelines.

We report to you our opinion as to whether the regulatory financial statements present fairly the regulatory financial performance of Network Rail Infrastructure Limited for the year ended 31 March 2005 and the Regulatory Asset Base as at that date in accordance with the requirements of Condition 22 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 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 consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements. 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 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 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 was adequate overall to comply with the Regulatory Accounting Guidelines.

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements of the Company on which we reported on 26 May 2005, 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 section 235 of the Companies Act 1985. 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 auditor's 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 fairly present the regulatory financial performance of Network Rail Infrastructure Limited for the year ended 31 March 2005 and the Regulatory Asset Base as at that date, and have been prepared, in accordance with the requirements of Condition 22 and the Regulatory Accounting Guidelines.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
20 July 2005

Accounting Policies

The Regulatory Financial Statements have been prepared in accordance with detailed Regulatory Accounting Guidelines issued by ORR under Condition 22 on 24 May 2005.

The accounting policies adopted in presenting these regulatory financial statements are consistent with those detailed in the Company's statutory financial statements for the year ended 31 March 2005 which were approved by the Directors on 26 May 2005 and will be filed with the Registrar of Companies on 22 July 2005 with the following exceptions.

Inflation

Each year the opening RAB is inflated to bring its valuation up to current prices. The statutory accounts are prepared on an historic 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 useful economic life (currently 25 years). No depreciation is provided in these regulatory financial statements. The RAB is amortised as detailed in the ORR Access Charges Review 2003 Final Conclusions. The opening RAB at 1 April 2004 is subject to amortisation on a 7% reducing balance basis while additions to the RAB in respect of renewals and enhancements subsequent to 1 April 2004 in the year under review are amortised at 3.33%.

Reactive works on structures and operational property.

Certain reactive and cyclical works on structures and operational property are recorded in the ORR determination as renewals, therefore in these regulatory financial statements they have been disclosed as renewals to give the most appropriate comparison with the ACR 2003. In the statutory accounts, such amounts are recorded as maintenance within operating costs as they do not represent capital expenditure in accordance with FRS 15 "*Tangible Fixed Assets*". An adjustment has also been made for WCRM feeder stations which are treated as operating expenditure in the determination and as renewals in the statutory accounts.

Capitalised interest

Interest is capitalised into the cost of projects in the statutory accounts in accordance with FRS 15. In these regulatory financial statements capitalised interest is excluded from all balances and where appropriate capitalised financing is added in the calculation of the RAB.

Going Concern

After making enquiries, the directors have formed a judgement, at the time of approving the regulatory financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the regulatory financial statements.

Statement I: Financial Performance

in £m 2004/05 prices

	Spend in the year		
	Actual	ACR 2003	Difference
Operating expenditure	1,181	1,248	67
Maintenance expenditure	1,271	1,296	25
Schedule 4 costs	59	67	8
Schedule 8 (income)/costs	(72)	16	88
Return on the RAB (as per ACR 2003)	1,359	1,359	-
Amortisation	1,451	1,451	-
Gross revenue	5,249	5,437	188
Other income	(723)	(723)	-
Net revenue	4,526	4,714	188
Variable charge income including Schedule 4 and 8 access charge supplements	(414)	(389)	25
Total net revenue recovered through fixed track access charges and grants	4,112	4,325	213
Split of track access charges as per 10 March 2004			
ORR statement			
Variable charges	414	389	25
Fixed charges (net of £250m rebate)	629	887	(258)
Total track access charges	1,043	1,276	(233)
Grants	2,058	1,814	244
Deferred grants	1,624	1,624	-
Total revenue	4,725	4,714	11
Net revenue received in the year	3,101	3,090	11
Reconciliation to total income:			
Other income	723	723	-
Deferred grants	-	1,624	(1,624)
Schedule 4 costs	(59)	(67)	8
Schedule 8 income/(cost)	72	(16)	88
Other	-	(1)	1
Total income (see Statement 5)	3,837	5,353	(1,516)

Statement 2: RAB adjustments and accruals

in £m 2004/05 prices unless stated

Calculation of the RAB:

	Movements in the year 2004/05			Total as at 31/03/05
	Opening value	Adjustment	Capitalised financing (return)	
Opening RAB for the year (03/04 prices)	18,143			
Amortisation of April '04 RAB				
Opening April 2004 RAB (04/05 prices)	18,768			
Amortisation on April 2004 RAB (7% reducing balance)	-	(1,314)	-	(1,314)
Opening RAB after amortisation	18,768	(1,314)	-	17,454
Adjustments for actual 03/04 overspend and net debt				
Adjustment between actual 03/04 outturn and ACR determination		(298)	(20)	(318)
Adjustment for net debt levels		(325)	(21)	(346)
RAB after adjustments for 03/04 overspend and net debt				16,790
Renewals and enhancements (see statement 3 for more detail)				
Renewals in ACR 2003		2,999	-	2,999
Enhancements in ACR 2003		1,086	-	1,086
Amortisation on post April 2004 investment in ACR 2003 (3.33%)		(136)	-	(136)
Variance on emerging cost enhancements		(319)	(11)	(330)
Investments not funded in ACR 2003 (not yet approved by ORR - see Statement 3)		50	2	52
Net addition to the RAB from renewals and enhancements		3,680	(9)	3,671
Other adjustments to be incorporated in April 2005 RAB		1	-	1
Closing RAB (including £52m for investments not yet approved by ORR – see also Appendix A)				20,462
Debt *				15,646
Debt to RAB ratio				77%

* Of the total debt balance detailed above, £3,873m is held by Network Rail Infrastructure Finance PLC, the special purpose financing vehicle that Network Rail has established to facilitate the licence holders long term Debt Issuance Programme.

Statement 2: RAB adjustments and accruals continued

in £m 2004/05 prices unless stated

Annual adjustments

	Analysis of value by year of movement, current prices							Adjustment for regulatory incentives	Total
	Value at 1 April 2004	Adjustment in 2004/05	Adjustment in 2005/06	Adjustment in 2006/07	Adjustment in 2007/08	Adjustment in 2008/09	Total adjustments		
Opening RAB for the year (03/04 prices)	18,143								
Amortisation of April '04 RAB									
Opening April 2004 RAB (04/05 prices)	18,768						18,768		18,768
Amortisation on April 2004 RAB (7% reducing balance)		(1,314)					(1,314)		(1,314)
Opening RAB after amortisation	18,768	(1,314)					17,454		17,454
Adjustments for actual 03/04 outturn and ACR determination		(318)					(318)		(318)
Adjustment for net debt levels		(346)					(346)		(346)
RAB after adjustments for 03/04 figures		16,790					16,790		16,790
Renewals and enhancements (see statement 3 for more detail)									
Renewals in ACR 2003		2,999					2,999		2,999
Enhancements in ACR 2003		1,086					1,086		1,086
Amortisation on post April 2004 investment in ACR 2003 (3.33%)		(136)					(136)		(136)
Variance on emerging cost enhancements		(330)					(330)		(330)
Investments not funded in ACR 2003		52					52		52
Net addition to the RAB from renewals and enhancements		3,671					3,671		3,671
Other adjustments									
Adjustment to be incorporated in 2009 RAB		3,672					3,672		3,672
Closing RAB		20,462					20,462		20,462
Debt		15,646							
Debt to RAB ratio		77%							
Indicative adjustments to 2009 RAB for incentive mechanism (not included until the end of the control period)									
Asset stewardship index								318	318
Volume incentive								29	29
1 April 2009 RAB								347	20,809

Statement 3: Analysis of Capital Expenditure for the RAB

in £m 2004/05 prices unless stated

	Spend in the year		
	Actual	ACR 2003	Difference
Renewals included in the ACR 2003	2,653	2,999	346
Enhancements included in the ACR 2003			
<i>Health and safety schemes</i>			
Train protection schemes	17	43	26
LMD pollution prevention	10	23	13
Other S&E Plan schemes	46	115	69
<i>Total health and safety schemes</i>	73	181	108
<i>Emerging cost enhancements (transition schemes)</i>			
Southern Power Upgrade (PSU)	249	480	231
Southern New Trains Programme (non-PSU)	25	30	5
CTRL blockade	60	115	55
Thameslink 2000 development	6	34	28
<i>Total emerging cost enhancements</i>	340	659	319
Telecoms enhancements	-	5	5
WCRM enhancements	239	241	2
Total enhancements in ACR 2003	652	1,086	434
Investments not included in ACR 2003			
<i>Government sponsored schemes</i>			
SRNTP non-PSU works	-	-	-
Others	4	-	(4)
<i>Total government sponsored schemes</i>	4	-	(4)
<i>Network Rail sponsored schemes</i>			
Schemes in DfT pot for discretionary spend	-	-	-
Tyseley South	-	-	-
Peterborough-Werrington	-	-	-
Other schemes (approved separately)	46	-	(46)
<i>Total Network Rail sponsored schemes</i>	46	-	(46)
<i>Schemes promoted by third parties</i>			
Project Evergreen 2	-	-	-
Others	-	-	-
<i>Total schemes promoted by third parties</i>	-	-	-
Other enhancement projects	-	-	-
Total investments not in ACR 2003: approved			
Total investments not in ACR 2003: proposed	50	-	(50)
Total renewals and enhancements	3,355	4,085	730

Statement 4: Analysis of Operating, Maintenance & Renewals Expenditure

in £m 2004/05 prices unless stated

	Spend in the year		
	Actual	ACR 2003	Difference
Renewals			
Non-WCRM			
Track	609	631	22
Structures	263	312	49
Signalling	183	312	129
Telecoms	201	232	31
Electrification	26	49	23
Plant and machinery	77	185	108
Operational property	172	183	11
Other (inc IT)	86	131	45
Total non-WCRM	1,617	2,035	418
Total WCRM renewals	1,036	964	(72)
Total renewals	2,653	2,999	346
Total maintenance	1,271	1,296	25
Operating expenditure			
Controllable operating expenditure	934	1,018	84
Non-controllable operating expenditure	247	230	(17)
Total operating expenditure	1,181	1,248	67
Total operating, maintenance and renewals expenditure	5,105	5,543	438

Note: Total gross staff costs for 2004/05 were £1,132m.

Statement 5: Analysis of Income

in £m 2004/05 prices unless stated

	Spend in the year		
	Actual	ACR 2003	Difference
Franchised track access income			
Fixed charges	879	887	(8)
Rebates paid	(250)	-	(250)
Usage charge	228	179	49
Capacity charge	5	-	5
EC4T	92	127	(35)
Schedule 4 net income	16	-	16
Schedule 8 net income	86	-	86
Other contractual payments	-	-	-
Total franchised track access income	1,056	1,193	(137)
Grant income	2,058	3,437	(1,379)
Other single till income			
Property income	241	233	8
Freight income	73	86	(13)
Open access income	62	46	16
Stations income	286	290	(4)
Depots income	47	52	(5)
Ring-fenced asset income	14	16	(2)
Other single till	-	-	-
Total other single till income	723	723	-
Total income	3,837	5,353	(1,516)

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

At 31 March 2005

	£m	£m
RAB valuation at 31 March 2005 (Statement 2)		20,462
Differences between RAB valuation and statutory railway network fixed assets valuation		
Capital grants carried as deferred income in statutory accounts	860	
Adjustment to recognise deferred revenue grant	1,682	
Other net movements	7	
		2,549
Railway network valuation per the statutory accounts at 31 March 2005		23,011

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

Year ended 31 March 2005

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2005 per regulatory statements (Statement 1)	1,181	1,271	2,452
Differences between regulatory expenditure and statutory expenditure			
Depreciation	834	-	834
Reactive maintenance expenditure	-	106	106
Capital grants amortised	(27)	-	(27)
Railway Safety costs	50	-	50
Wayleaves	(9)	-	(9)
West Coast feeder stations	(13)	-	(13)
Safety and Environment Plan (S&E)	(25)	25	-
	810	131	941
Operating and maintenance expenditure for year ended 31 March 2005 per the statutory accounts	1,991	1,402	3,393

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2005

	£m	£m
Regulatory income for year ended 31 March 2005 (Statements 1 and 5)		3,837
Differences between regulatory income and statutory turnover		
Property sales	(69)	
Wayleaves	(9)	
Railway Safety income	41	
		(37)
Statutory turnover for year ended 31 March 2005		3,800