

Network Rail Infrastructure Limited
Regulatory Financial Statements

Year ended 31 March 2006

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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 2006. These are the second 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.

Financial performance

The challenge of meeting our efficiency targets set by the ORR continues to be our key focus. Savings have been delivered by continuing our regime of strong budgetary control, minimising inefficient and discretionary spend and improving the understanding of our cost bases and cost drivers. We are ahead of our targeted efficiencies but further efficiencies will need to be delivered for the remainder of the control period in order to meet fully the ORR's challenge of 31% cost reductions by 31 March 2009. Clearly these efficiencies become harder to deliver as overall spend reduces. We are, nonetheless, confident that the delivery of these financial targets, as outlined in our recently published Business Plan, will be substantially achieved.

Statement 1 details the Company's financial performance against the ORR's determination for the years ended 31 March 2006 and 31 March 2005 and the aggregate for the control period to date (CPTD).

Operating expenditure

Operating expenditure totalled £1,130m (£2,340m CPTD), a £66m (£135m CPTD) saving against the ORR's determination of £1,196m (£2,475m CPTD).

Controllable operating expenditure saw savings as a result of the targeted reduction of agency staff and contractors and consultants.

Non controllable operating expenditure costs were 5% more, in real terms, than 2004/2005 and are currently 10% worse than the cumulative ORR determination largely as a result of the increasing cost of electricity for traction and the British Transport Police.

Maintenance

Maintenance costs of £1,192m (£2,494m CPTD) were £29m (£55m CPTD) less than the ORR's determination of £1,221m (£2,549m CPTD).

Maintenance costs were reduced as a result of the renegotiation of commercial contracts, reduced reliance on sub-contractors, productivity improvements, as well as residual benefits from the elimination of contractors' profit and overheads. We have made continued progress on delivering efficiencies and achieving a meaningful unit costing structure for maintenance work. By year end we had established a reliable unit cost framework for 50% of our maintenance costs. Core maintenance costs continue to reduce with more maintenance work delivered for less money than in prior years. Cost reduction has occurred even though the volume of traffic on the network has increased significantly.

Schedule 4 costs

Total Schedule 4 costs were £71m (£131m CPTD), a saving of £6m (£14m CPTD) against the ORR's determination of £77m (£145m CPTD).

This was as a result of reprofiling expenditure on investment schemes in the ORR determination to later years in the control period.

Schedule 8 costs

The 8% reduction in train delays this year attributable to Network Rail has resulted in Schedule 8 receivable of £85m (£159m CPTD) compared to the ORR determination which assumed costs of £15m (£31m CPTD), an overall saving of £100m (£190m CPTD). A large number of initiatives have contributed to this notable improvement. The decisions to bring rail maintenance contracts in-house and to introduce 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 freight income totalling £763m (£1,504m CPTD) was in line with the ORR determination for the year (and CPTD). Minor shortfalls in income from stations & depots, and third party enhancement schemes were largely offset primarily by additional open access and freight income.

Grant and rebate

Actual grant income from the Department for Transport totalled £1,983m (£4,091m CPTD). This is significantly less than that initially assumed in the ACR 2003. This is because some of the allowed income for 2004/5 and 2005/6 was reprofiled to later years. The shortfall in these two years was financed through additional borrowings. This reprofiling was partially offset by a £250m rebate of fixed track access charges each year in the control period, as in the control period under review the Company rebated £250m of fixed track access income to train operating companies each year matching an identical sum of Network Grant received from the Department for Transport.

Regulatory Asset Base ("RAB")

The RAB at 31 March 2006 totalled £23,028m 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 last years regulatory accounts (£20,462m in 04/05 prices) is uplifted to 05/06 prices (£20,960m). Amortisation on the opening RAB at the start of the control period of £1,252m is provided on a 7% reducing balance basis.

There is also an adjustment to the opening RAB for the year to reflect the impact of the signalling review published in December 2005. This resulted in a reduction of £139m in the ACR 2003 for 2004/05.

The allowances for renewals (£2,836m) and enhancements (£429m) from the Final Conclusions are added to the RAB (in 05/06 prices), and amortisation is provided on additions in this control period at 3.33% resulting in a £252m 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 reversal of this year's emerging cost underspend to 31 March 2006 was £84m 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. Further schemes totalling £24m (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. During the year £17m of schemes proposed for logging up in the RAB in

2004/05 were not approved by the ORR in 2005/06 and so these schemes have been deducted from the carrying value of the ORR RAB.

The net addition to the RAB in respect of renewals and enhancements for 2005/6 was £3,121m (including the effect of capitalised financing) giving a closing RAB valuation of £23,028m. This valuation is reconciled to the Railway Network fixed asset valuation presented in the statutory accounts for the year ended 31 March 2006 in Appendix A. The full value of the £1.7bn deferred revenue grant is included in the statutory railway network fixed asset valuation at 31 March 2006.

The RAB reduction of £355m shown in 2004/05 has been reversed in 2005/06 because it has now been agreed that the benefit of the lower opening net debt at the start of the control period will be repaid in cash to the government over the remaining three years of this control period.

Capital expenditure

Statement 3 contains detail of capital expenditure against the ORR determination. Actual renewals totalled £2,660m, £176m less than the ORR determination largely as a result of reprofiling expenditure within the control period but also due to efficiency savings we are making. Enhancement expenditure was £406m, including £383m of enhancements within the ACR 2003, £46m less than the determination. This difference was offset by the £23m (excluding the effect of capitalised financing) of enhancements delivered outside the determination discussed above to give a net difference of £23m.

Whilst all asset categories are reporting efficiencies, the most significant out performance comes from the signalling and civils portfolios, driven by improved contracting arrangements and bringing front end works such as signalling design in-house. The development of the Cost Analysis Framework, which provides consistent volume and cost collection rules, processes for estimating and reporting costs, and a central database which holds all emerging actual data and scrutiny through the year end joint audit with Halcrow (the ORR reporters) have enhanced this process further this year.

It is becoming increasingly apparent that we will struggle to achieve the ORR efficiency levels over the control period for track renewals, in part due to the upwards pressure on steel prices, fuel and materials. We have some opportunities to exploit, and new technology will kick in by the end of the control period (e.g. the modular switches and crossings programme). The achievement of the allowances made in the ACR2003 provides a more immediate problem.

Debt

Debt at 31 March 2006 was £17,991m. This was after the deduction of unamortised discount and fees of £134m. The debt to RAB ratio at 31 March 2006 was 78.1% and reflects the reprofiling of grant income discussed above. The Network Rail Business Plan published on 31 March 2006 forecasts further increase in debt in 2006/07. Debt is forecast to peak at the end of the control period at approximately £21.0bn.

Network Rail Infrastructure Finance PLC ("NRIF"), a special purpose financing company, was incorporated for the sole purpose of acting as the issuer under Network Rail's Debt Issuance Programme ("DIP") and is not a member of the Network Rail group. For accounting purposes NRIF is treated as a quasi-subsiary in the consolidated accounts of Network Rail Infrastructure Limited ("NRIL").

The year ended 31 March 2006 saw the transfer of Network Rail's debt support obligations from the Strategic Rail Authority ("SRA") to the Secretary of State for Transport on 26 June 2005. The DIP within NRIF is supported by a financial indemnity from the Secretary of State for Transport which expires in 2052. As at 31 March 2006, all of Network Rail's debt (including loans from European Investment Bank and Kreditanstalt fur Wiederaufbau) sits

under the DIP other than £5.7bn equivalent of Medium Term Note Programme which sits under Network Rail MTN Finance PLC. Within the DIP is a £20bn note programme which has been highly rated (AAA by Standard and Poors, Aaa by Moody's and AAA by Fitch).

The DIP allows access, through a single platform, to the widest possible sources of funding including the long-term capital markets. Giving Network Rail access to the widest possible sources of funding at the lowest possible cost provides a stable base for funding a continuing programme of long-term investment in the national rail network.

During the year ended 31 March 2006, £4.4bn of bonds have been issued under the DIP in a number of currencies (UK Sterling (including index linked), US Dollars, Australian Dollars, and Canadian Dollars) and in a number of maturities. All non-sterling issuance under the programme was swapped into fixed sterling interest rates (until at least the end of control period) as at the balance sheet date to protect against movements in interest and foreign exchange rates. All Sterling denominated bonds were fixed rate (or index-linked) by the year end. Sterling denominated debt made up approximately 70% of the value of bonds issued during the year.

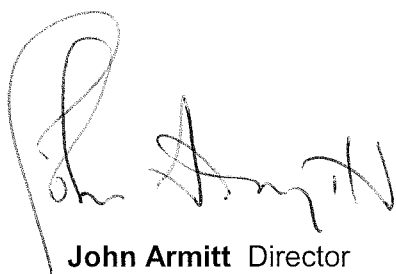
The Company had £6.75bn of undrawn committed facilities available at 31 March 2006 through the DIP working capital facility and the Secretary of State for Transport standby facility A (£4bn). The Secretary of State for Transport standby facility is undrawn and will only be called upon as a last resort.

Statement under Condition 29 of the Network Licence

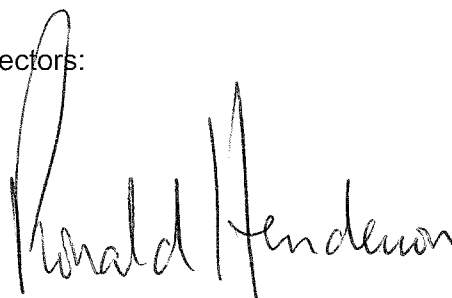
Under Condition 29 of Network Rail's network licence, the licence holder shall provide, from time to time as requested by the ORR and in any event every year in the regulatory financial statements it prepares pursuant to Condition 22, confirmation that, in respect of the financial year to which the statements 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 ORR, shall make evidence in support of that confirmation. In this regard, the debt to RAB ratio at 31 March 2006 at 78.1% 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.

The directors' report and the regulatory financial statements were approved by the Board of Directors on 26 July 2006.

Signed on behalf of the Board of Directors:



John Armitt Director



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 ORR'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 items included in the primary financial statements with any corresponding items in annual statutory accounts for the same period;
- include narrative explaining the material variances from the previous year and from the Determination Assumptions; and
- include the confirmation required under Condition 29 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 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 ORR, shall make 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' 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 2006 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, C and D.

This report is made, in accordance with our terms of engagement dated 17 July 2006, 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 International Financial Reporting Standards ("IFRS"). Financial information other than that prepared on the basis of IFRS or UK Generally Accepted Accounting Principles ("UK GAAP") 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 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 19 July 2006. Our responsibility, as set out in our terms of engagement, is to audit the regulatory financial statements 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 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 2006 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 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. 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 25 May 2006, 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, in accordance with the Regulatory Accounting Guidelines, the regulatory financial performance of Network Rail Infrastructure Limited for the year ended 31 March 2006 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
26 July 2006

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 22 of the Licence and the statements must be prepared in accordance with detailed Regulatory Accounting Guidelines issued by ORR under Condition 22 on 19 July 2006.

The accounting policies adopted in presenting these regulatory financial statements are consistent with the Regulatory Accounting Guidelines issued by the ORR on 19 July 2006. These are consistent with those detailed in the Company's statutory financial statements for the year ended 31 March 2006 which were approved by the Directors on 25 May 2006 and will be filed with the Registrar of Companies in July 2006 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 weighted average 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 control period 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 IAS 16 '*Property, Plant & Equipment*'. An adjustment has also been made for WCRM feeder stations which are treated as operating expenditure in the determination and as fixed asset additions in the statutory accounts.

Debt

In accordance with the RAGs Condition 29, paragraph 4 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.

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 these regulatory financial statements capitalised interest is excluded from all balances and where appropriate capitalised financing is added in the calculation of the RAB.

Statement 1: Financial Performance

in £m 2005/06 prices

	Actual	2005/06 ACR 2003	Difference
Operating expenditure (see Appendix B)	1,130	1,196	66
Maintenance expenditure (see Appendix B)	1,192	1,221	29
Schedule 4 costs	71	77	6
Schedule 8 (income)/costs	(85)	15	100
Return on the RAB (as per ACR 2003)	1,546	1,546	-
Amortisation	1,504	1,504	-
Gross revenue	5,358	5,559	201
Other income	(763)	(764)	(1)
Net revenue	4,595	4,795	200
Variable charge income including Schedule 4 and 8 access charge supplements	(447)	(406)	41
Total net revenue recovered through fixed track access charges and grants	4,148	4,389	241
Split of track access charges as per 10 March 2004			
ORR statement			
Variable charges	447	406	41
Fixed charges (net of £250m rebate) ¹	675	919	(244)
Total track access charges	1,122	1,325	(203)
Grants ²	1,983	3,470	(1,487)
Total revenue	3,105	4,795	(1,690)
Reconciliation to total income:			
Other income	763	764	(1)
Deferred grants	-	-	-
Schedule 4 costs	(71)	(77)	6
Schedule 8 income/(cost)	85	(15)	100
Other	-	-	-
Total income (see Statement 5)	3,882	5,467	(1,585)

¹ Actual Fixed charges for 2005/06 are calculated net of £250m rebate.

² Grant income as stated in the ACR 2003 for 2005/06 includes £1,748m of deferred grants that were not received in the current financial year.

Statement 1: Financial Performance continued

in £m 2005/06 prices

	Actual	2004/05 2003 ACR	Difference
Operating expenditure	1,210	1,279	69
Maintenance expenditure	1,302	1,328	26
Schedule 4 costs	60	68	8
Schedule 8 (income)/costs	(74)	16	90
Return on the RAB (as per ACR 2003)	1,392	1,392	-
Amortisation	1,486	1,486	-
Gross revenue	5,376	5,569	193
Other income	(741)	(741)	-
Net revenue	4,635	4,828	193
Variable charge income including Schedule 4 and 8 access charge supplements	(424)	(399)	25
Total net revenue recovered through fixed track access charges and grants	4,211	4,429	218
Split of track access charges as per 10 March 2004 ORR statement			
Variable charges	424	399	25
Fixed charges (net of £250m rebate) ¹	644	908	(264)
Total track access charges	1,068	1,307	(239)
Grants ²	2,108	3,521	(1,413)
Total revenue	3,176	4,828	(1,652)
Reconciliation to total income:			
Other income	741	741	-
Deferred grants	-	-	-
Schedule 4 costs	(60)	(68)	8
Schedule 8 income/(cost)	74	(16)	90
Other	-	-	-
Total income	3,931	5,485	(1,554)

¹ Actual Fixed charges for 2004/05 are calculated net of £250m rebate.

² Grant income as stated in the ACR 2003 for 2004/05 includes £1,663m of deferred grants that were not received in that financial year.

Statement 1: Financial Performance continued

in £m 2005/06 prices

	Actual	Cumulative ACR 2003	Difference
Operating expenditure	2,340	2,475	135
Maintenance expenditure	2,494	2,549	55
Schedule 4 costs	131	145	14
Schedule 8 (income)/costs	(159)	31	190
Return on the RAB (as per ACR 2003)	2,938	2,938	-
Amortisation	2,990	2,990	-
Gross revenue	10,734	11,128	394
Other income	(1,504)	(1,505)	(1)
Net revenue	9,230	9,623	393
Variable charge income including Schedule 4 and 8 access charge supplements	(871)	(805)	66
Total net revenue recovered through fixed track access charges and grants	8,359	8,818	459
Split of track access charges as per 10 March 2004			
ORR statement			
Variable charges	871	805	66
Fixed charges (net of £250m rebate) ¹	1,319	1,827	(508)
Total track access charges	2,190	2,632	(442)
Grants ²	4,091	6,991	(2,900)
Total revenue	6,281	9,623	(3,342)
Reconciliation to total income:			
Other income	1,504	1,505	(1)
Deferred grants	-	-	-
Schedule 4 costs	(131)	(145)	14
Schedule 8 income/(cost)	159	(31)	190
Other	-	-	-
Total income	7,813	10,952	(3,139)

¹ Actual Fixed charges for 2004/05 and 2005/06 are both calculated net of £250m rebate.

² Grant income as stated in the ACR 2003 for 2004/05 and 2005/06 includes £1,663m and £1,748m of deferred grants respectively that were not received in those financial years.

Statement 2: RAB adjustments and accruals

in £m 2005/06 prices unless stated

Calculation of the RAB:

	Movements in the year 2005/06			
	Opening value	Adjustment	Capitalised financing (return)	Total as at 31/03/06
Opening RAB for the year (04/05 prices)	20,462	-	-	-
Opening April 2005 RAB (05/06 prices)	20,960	-	-	20,960
Amortisation on April 2004 RAB (7% reducing balance)		(1,252)	-	(1,252)
Opening RAB after amortisation	20,960	(1,252)	-	19,708
Adjustments				
04/05 investments not approved by ORR ¹		(17)	-	(17)
Adjustment to reflect signalling review for 04/05		(139)	-	(139)
Reversal of RAB reduction for opening net debt levels		355	-	355
RAB after prior year adjustments				19,552
Renewals and enhancements (see Statement 3 for more detail)				
Renewals in ACR 2003 ²		2,836	-	2,836
Enhancements in ACR 2003		429	-	429
Amortisation on post April 2004 investment in ACR 2003 (3.33%)		(252)	-	(252)
Variance on emerging cost enhancements		81	3	84
Investments not funded in ACR 2003 (not yet approved by ORR – see Statement 3)		23	1	24
Net addition to the RAB from renewals and enhancements		3,117	4	3,121
Closing RAB (including £24m for investments not yet approved by ORR – see also Appendix A)				23,028
Debt³ (see Appendix D)				17,991
Debt to RAB ratio				78%

¹ 04/05 investments not approved refers to expenditure not funded in the ACR 2003 that have been proposed for logging up in 2004/05 but have not been approved for inclusion in the value of the RAB by the ORR.

² The signalling allowance in the ACR 2003 is stated after taking account of the signalling review published in December 2005. This has the effect of reducing the ACR 2003 renewals by £67m for 2005/06 from £2,903m to £2,836m.

³ Of the total debt balance detailed above, £11,387m 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 2005/06 prices unless stated

Annual adjustments

	Analysis of value by year of movement		
	Value at 1 April 2004	Adjustment 2004/05 2005/06	Total
Opening RAB (03/04 prices)	18,143		
Opening RAB (05/06 prices)		19,225	19,225
Amortisation on opening RAB (7% reducing balance)		(1,346)	(2,598)
Opening RAB after amortisation		17,879	16,627
Adjustment for actual 03/04 outturn expenditure		(325)	(325)
04/05 investments not approved by ORR ¹		-	(17)
Adjustment to reflect signalling review for 04/05		-	(139)
Adjustment for opening net debt at 1 April 04		(355)	-
RAB after prior years adjustments		17,199	16,146
Renewals and enhancements (see Statement 3 for more detail)			
Renewals in ACR 2003 ²		3,072	5,908
Enhancements in ACR 2003		1,112	1,541
Amortisation on post April 2004 investment in ACR 2003 (3.33%)		(139)	(391)
Variance on emerging cost enhancements		(337)	(253)
Investments not funded in ACR 2003		53	77
Net addition to the RAB from renewals and enhancements		3,761	6,882
Closing RAB		20,960	23,028
Debt		16,027	17,991
Debt to RAB ratio		77%	78%

Regulatory Incentives

Indicative adjustments to 2009 RAB for incentive mechanism (not included until the end of the control period)

Asset stewardship index	326
Volume incentive	174
1 April 2009 RAB	500

¹ 04/05 investments not approved refers to expenditure not funded in the ACR 2003 that have been proposed for logging up in 2004/05 but have not been approved for inclusion in the value of the RAB by the ORR.

² The signalling allowance in the ACR 2003 is stated after taking account of the signalling review published in December 2005. This has the effect of reducing the ACR 2003 by £67m for 2005/06 from £2,903m to £2,836m.

Statement 3: Analysis of Capital Expenditure for the RAB

in £m 2005/06 prices unless stated

	Net spend in the year		
	Actual	ACR 2003	Difference
Renewals included in the ACR 2003	2,660	2,836	176
Enhancements included in the ACR 2003			
<i>Health and safety schemes</i>			
Train protection schemes	13	44	31
LMD pollution prevention	21	-	(21)
Other S&E Plan schemes	10	129	119
<i>Total health and safety schemes</i>	44	173	129
<i>Emerging cost enhancements (transition schemes)</i>			
Southern Power Upgrade (PSU)	124	68	(56)
Southern New Trains Programme (non-PSU)	20	14	(6)
CTRL blockade	13	-	(13)
Thameslink 2000 development	8	-	(8)
<i>Total emerging cost enhancements</i>	165	82	(83)
Telecoms enhancements	3	11	8
WCRM enhancements	171	163	(8)
Total enhancements in ACR 2003	383	429	46
Investments not included in ACR 2003			
<i>Government sponsored schemes</i>			
SRNTP non-PSU works	-	-	-
Others	2	-	(2)
<i>Total government sponsored schemes</i>	2	-	(2)
<i>Network Rail sponsored schemes</i>			
Schemes in DfT pot for discretionary spend	1	-	(1)
Tyseley South	-	-	-
Peterborough-Werrington	3	-	(3)
Other schemes	17	-	(17)
<i>Total Network Rail sponsored schemes</i>	21	-	(21)
<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	23	-	(23)
Total renewals and enhancements	3,066	3,265	199

Statement 4: Analysis of Operating, Maintenance & Renewals Expenditure

in £m 2005/06 prices unless stated

	Spend in the year		
	Actual	ACR 2003	Difference
Renewals			
Non-WCRM			
Track	808	747	(61)
Structures	300	294	(6)
Signalling ¹	286	332	46
Telecoms	135	201	66
Electrification	53	64	11
Plant and machinery	67	82	15
Operational property	203	175	(28)
Other (inc IT)	148	137	(11)
Total non-WCRM	2,000	2,032	32
Total WCRM renewals	660	804	144
Total renewals	2,660	2,836	176
Total maintenance	1,192	1,221	29
Operating expenditure			
Controllable operating expenditure	865	960	95
Non-controllable operating expenditure	265	236	(29)
Total operating expenditure	1,130	1,196	66
Total operating, maintenance and renewals expenditure	4,982	5,253	271

Note: Total gross staff costs for 2005/06 were £1,292m.

¹ The signalling allowance in the ACR 2003 is stated after taking account of the signalling review published in December 2005. This has the effect of reducing the ACR 2003 by £67m for 2005/06.

Statement 5: Analysis of Income

in £m 2005/06 prices unless stated

	Receipts in the year		
	Actual	ACR 2003	Difference
Franchised track access income			
Fixed charges	675	919	(244)
Rebates paid	-	-	-
Usage charge	221	184	37
Capacity charge	6	-	6
EC4T (incl. electrification usage charge)	125	130	(5)
Schedule 4 net income	14	-	14
Schedule 8 net income	95	-	95
Other contractual receipts	-	-	-
Total franchised track access income	1,136	1,233	(97)
Grant income	1,983	3,470	(1,487)
Total franchised track access and grant income	3,119	4,703	(1,584)
Single till income (excl. freight)			
Property income	251	250	1
Open access income	59	47	12
Stations income	294	297	(3)
Depots income	48	53	(5)
Third party funded enhancement schemes	14	27	(13)
Other single till	-	-	-
Total single till income (excl. freight)	666	674	(8)
Freight income¹			
Variable track access	93		
Capacity charge	4		
Performance regime	(11)		
Cancellations	2		
EC4T	4		
Other	5		
Total freight income	97	90	7
Total single till income	763	764	(1)
Total income (see Appendix C)	3,882	5,467	(1,585)

¹ The Regulatory Accounting Guidelines for 2005/06 require a breakdown of freight income for the first time. No breakdown is included in the ACR 2003. Therefore, no comparatives to actual expenditure are possible.

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

At 31 March 2006

	£m	£m
RAB valuation at 31 March 2006 (Statement 2)		23,028
Differences between RAB valuation and statutory railway network fixed assets valuation		
Capital grants carried as deferred income in statutory accounts	919	
Adjustment to recognise deferred revenue grant	3,652	
Reported as investment properties in statutory accounts	(892)	
Adjustment to reflect differences in the projected net cashflow to that stated in the determination	(859)	
Impact of achieving Asset Stewardship Incentive Index target	326	
Outperformance Fund	(200)	
Other	17	
		2,963
Railway network valuation per the statutory accounts at 31 March 2006		25,991

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

Year ended 31 March 2006

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2006 per regulatory statements (Statement 1)	1,130	1,192	2,322
Differences between regulatory expenditure and statutory expenditure			
Depreciation	964	-	964
Reactive maintenance expenditure	-	99	99
Capital grants amortised	(26)	-	(26)
Railway Safety costs	33	-	33
Wayleaves	(10)	-	(10)
West Coast feeder stations	(13)	-	(13)
Safety and Environment Plan (S&E)	(3)	3	-
	945	102	1,047
Operating and maintenance expenditure for year ended 31 March 2006 per the statutory accounts	2,075	1,294	3,369

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2006

	£m	£m
Regulatory income for year ended 31 March 2006 (Statements 1 and 5)		3,882
Differences between regulatory income and statutory turnover		
Property sales	(68)	
Wayleaves	(10)	
Railway Safety income	33	
		(45)
Statutory turnover for year ended 31 March 2006		3,837

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2006

	£m	£m
Regulatory debt at 31 March 2006 (Statement 2)		17,991
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Change in fair value of hedges	(7)	
Foreign exchange differences	217	
		210
Statutory net debt at 31 March 2006		18,201