Network Rail Infrastructure Limited

Interim financial statements

Six months ended 30 September 2009

Contents

Financial highlights

	Unaudited six months ended 30 September 2009 £m	Unaudited six months ended 30 September 2008 £m	Variance £m
Revenue	**2,843**	3,117	**(274)**
Net operating costs	**(1,749)**	(1,891)	**142**
Operating profit	**1,094**	1,226	**(132)**
Profit after taxation	**99**	5	**94**
Net cash from operating activities	**1,638**	1,636	**2**
Capital expenditure	**1,791**	2,161	**370**

	Unaudited six months ended 30 September 2009 £m	Audited year ended 31 March 2009 £m	Movement £m
Net debt	**(22,244)**	(22,307)	**63**
Net assets	**6,705**	7,241	**(536)**
Railway network fixed assets	**35,476**	34,925	**551**
Investment property valuation	**669**	700	**(31)**

Commentary

Summary

It has been a good half year for service delivery to our customers and passengers. Compared with the same period last year:

- We ran more than 3,000 additional trains per week
- On time performance rose to 93.3% on average with, over 5,000 more trains arriving on time each week
- We have been able to reduce charges to our customers in the period, by £274m
- Our safety measures continue to improve, confirming rail's position as the safest mode of travel

The interim results for the half year to 30 September 2009 show good financial performance. Revenue figures are in line with regulatory targets for the current funding period (2009-14). Maintenance costs are declining, staff costs have been held steady, and our investment programme continues apace. The debt programme continues to be prudent, well managed and fully hedged.

Operating and investment activities are compared to the first six months of the preceding financial year and balance sheet positions are compared to those set out in the annual report and accounts as at 31 March 2009.

Revenues

In its review of our charges for 2009-14 the Office of Rail Regulation agreed that we could afford a lower return on our assets (4.8% compared to 6.5% for the last three years).

This has allowed Network Rail to cut its charges to passenger and freight users. Charges to passenger operators have fallen by half a penny per passenger kilometre (5%) or 22p per passenger train journey. Freight costs have fallen by on average £1.16 per gross tonne mile (35%).

The decline in revenue has been partly offset by strong performance in cutting delays to passengers and better planning of improvement work, triggering out-performance bonuses from train operators and reducing the payments to train operators for disruption caused by investment work. Net income from these payments was £58m, compared to £35m in the same period last year.

Efficiencies

Network Rail is making very good progress in its commitment to reduce the costs of running the railway, making it ever more affordable. The combined target for 2009-14 is £4.1 billion and currently efficiency savings are slightly ahead of projections.

Network Rail is able to make significant cost efficiencies in its maintenance operations by adopting smarter working practices. Maintenance costs were £65m (or 8.5%) lower as a result of savings on subcontractors, agency workers and the hire of plant equipment.

Network Rail will cut costs further by implementing new techniques to replace life-expired infrastructure, such as the use of prefabricated, modular bridges and switches and crossings. This will also reduce the time needed to close sections of the railway and increase the amount of time that the network is available for trains to run. Network Rail has recently announced a planned reduction of around 1,500 posts in maintenance over the next 18 months.

Network Rail's expanding investment programme has allowed us to create 600 new jobs, combined with 500 jobs insourced as part of an efficiency drive. This has resulted in an increase in the workforce from 36,000 to 37,000 and an increase in total employee costs by £22m. The annualised average cost per employee, however, decreased by £414.

As a result of these savings, and other working capital movements, Network Rail generated cash flows of £1,638m from its operating activities, broadly equivalent to the same period last year, despite the reduction in income. These cash flows funded 91% of the capital investment in the railway network in the period.

Investment

Investment remains at historically high levels reflecting the focus on adding capacity, increasing line-speeds and improving reliability. In London and the South East a major congestion-busting programme of platform lengthening, to allow longer trains, is well underway. The last six months has seen significant work started on other major projects, notably Thameslink, Birmingham New Street and the Airdrie to Bathgate line.

Debt

Net debt of £22.2bn remains at a sustainable level. Network Rail is confident that its debt is well managed and the company has a policy of fully hedging. The company's debt issuance programme remains attractive to the market and continues to be over-subscribed. In the last six months over £2bn has been raised including a single public placement of a £750m inflation linked bond.

Assets

The valuation of the railway network rose to £35.476bn at 30 September 2009 from £34.925bn at 31 March 2009. This is despite a reduction in the valuation of investment property from £700m to £669m reflecting the continued depressed state of the property market.

Pensions

Like many companies, Network Rail has seen its pension deficit rise. The increase in deficit has been driven primarily by the way accounting rules measure the present value of future liabilities, rather than by a worsening of the underlying position of the defined benefit scheme. This is despite an increase in the valuation of scheme assets which have risen in line with gains in the equity markets in the half year.

Accounting rules require that the total projected amounts that the scheme is obliged to pay out in the future are reduced to a present day liability using highly rated (AA) corporate bond indices. Given it is cheaper to borrow now than it was six months ago the amount by which the future pension costs are discounted has fallen, causing the valuation of the liabilities to increase, and the deficit, for accounting purposes, to worsen.

Network Rail's liabilities in the Railway Pension Scheme are set at 60% with 40% borne by our employees. Network Rail's share of the pension deficit on 30 September 2009 was £998m, compared to £664m on 31 March 2009.

Outlook

Network Rail has a big task ahead. It must continue to drive down costs and reduce prices to customers and at the same time build a bigger and better railway through an extensive investment programme that will bring more trains, more seats and better journeys.

Network Rail continues to invest through the downturn; providing skilled jobs and opportunities for partners and suppliers across Great Britain. It anticipates that demand for rail will continue to grow and this vital investment will meet the needs of a recovering British economy. Looking forward Network Rail is confident that as roads and airports become more congested, the greener and safer option of rail travel makes it the best choice.

Iain Coucher
Chief Executive
26 November 2009

Independent review report

to Network Rail Infrastructure Limited

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
26 November 2009

Consolidated income statement

	Notes	Unaudited six months ended 30 September 2009 Results pre debt and derivative revaluations	Debt and derivative revaluations (Note 4)	Total	Unaudited six months ended 30 September 2008*	Audited year ended 31 March 2009*
		£m	£m	£m	£m	£m
Revenue	2	**2,843**	-	**2,843**	3,117	6,160
Net operating costs	3	**(1,749)**	-	**(1,749)**	(1,891)	(3,616)
Operating profit		**1,094**	-	**1,094**	1,226	2,544
Revaluation movements and profits on disposal of properties		**(54)**	-	**(54)**	(49)	(138)
Total profit from operations		**1,040**	-	**1,040**	1,177	2,406
Investment revenues	4	**14**	-	**14**	71	136
Other gains and losses	4	**-**	**(326)**	**(326)**	31	(72)
Finance costs	4	**(582)**	-	**(582)**	(573)	(946)
Profit before tax		**472**	**(326)**	**146**	706	1,524
Tax	5	**(152)**	**105**	**(47)**	(701)	(915)
Profit after tax for the period		**320**	**(221)**	**99**	5	609

All amounts in the current and prior periods relate to continuing activities.

* Debt and derivative revaluations resulted in £31m of income before tax in the six months to 30 September 2008 and £72m expense before tax in the year to 31 March 2009.

Consolidated statement of comprehensive income

	Unaudited six months ended 30 September 2009 £m	Unaudited six months ended 30 September 2008 £m	Audited year ended 31 March 2009 £m
Profit for the period	**99**	5	609
(Losses)/gains on revaluation of the railway network	**(653)**	256	(113)
(Losses)/gains on movement in fair value of hedging derivatives	**(91)**	149	44
Recycling of balances in hedging reserve to other gains and losses in the income statement	**2**	2	4
Gain/(loss) on retranslation of foreign currency debt taken to equity	**176**	(247)	(391)
	87	(96)	(343)
Actuarial losses on defined benefit pension schemes	**(314)**	(245)	(281)
Tax relating to components of other comprehensive income	**245**	24	207
Other comprehensive expense for the period	**(635)**	(61)	(530)
Total comprehensive (expense)/income for the period attributable to equity shareholders	**(536)**	(56)	79

Consolidated statement of changes in equity

	Share capital £m	Share Premium £m	Revaluation Reserve £m	Other Reserve £m	Hedging Reserve £m	Retained Earnings £m	Total £m
Balance at 31 March 2009 (Audited)	**160**	**85**	**4,298**	**1,458**	**(318)**	**1,558**	**7,241**
Profit for the period	-	-	-	-	-	99	99
Revaluation of the railway network	-	-	(653)	-	-	-	(653)
Transfer of deemed cost depreciation from revaluation reserve	-	-	(87)	-	-	87	-
Decrease in fair value of hedging derivatives	-	-	-	-	(91)	-	(91)
Exchange differences on retranslation of foreign currency debt	-	-	-	-	176	-	176
Reclassification adjustments for losses included in profit	-	-	-	-	2	-	2
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(314)	(314)
Tax relating to components of other comprehensive income	-	-	207	-	(25)	63	245
Balance at 30 September 2009 (Unaudited)	**160**	**85**	**3,765**	**1,458**	**(256)**	**1,493**	**6,705**

	Share capital £m	Share Premium £m	Revaluation Reserve £m	Other Reserve £m	Hedging Reserve £m	Retained Earnings £m	Total £m
Balance at 30 September 2008 (Unaudited)	**160**	**85**	**4,618**	**1,458**	**(143)**	**928**	**7,106**
Profit for the period	-	-	-	-	-	604	604
Revaluation of the railway network	-	-	(369)	-	-	-	(369)
Transfer of deemed cost depreciation from revaluation reserve	-	-	(74)	-	-	74	-
Increase in fair value of hedging derivatives	-	-	-	-	291	-	291
Exchange differences on retranslation of foreign currency debt	-	-	-	-	(540)	-	(540)
Reclassification adjustments for losses included in profit	-	-	-	-	2	-	2
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(36)	(36)
Tax relating to components of other comprehensive income	-	-	123	-	72	(12)	183
Balance at 31 March 2009 (Audited)	**160**	**85**	**4,298**	**1,458**	**(318)**	**1,558**	**7,241**

Consolidated statement of changes in equity (continued)

	Share capital £m	Share Premium £m	Revaluation Reserve £m	Other Reserve £m	Hedging Reserve £m	Retained Earnings £m	Total £m
Balance at 31 March 2008 (Audited)	**160**	**85**	**4,511**	**1,458**	**(72)**	**1,020**	**7,162**
Profit for the period	-	-	-	-	-	5	5
Revaluation of the railway network	-	-	256	-	-	-	256
Transfer of deemed cost depreciation from revaluation reserve	-	-	(108)	-	-	108	-
Increase in fair value of hedging derivatives	-	-	-	-	(247)	-	(247)
Exchange differences on retranslation of foreign currency debt	-	-	-	-	149	-	149
Reclassification adjustments for losses included in profit	-	-	-	-	2	-	2
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(245)	(245)
Tax relating to components of other comprehensive income	-	-	(41)	-	25	40	24
Balance at 30 September 2008 (Unaudited)	**160**	**85**	**4,618**	**1,458**	**(143)**	**928**	**7,106**

Consolidated balance sheet

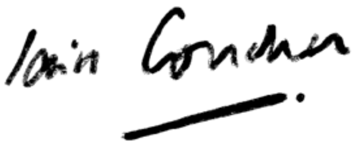
	Notes	Unaudited 30 September 2009 £m	Unaudited 30 September 2008 £m	Audited 31 March 2009 £m
Assets				
Non-current assets				
Intangible assets		**73**	74	73
Property, plant and equipment – the railway network	6	**35,476**	33,212	34,925
Investment property		**669**	866	700
Investments in joint ventures		**5**	2	5
Loan to immediate parent company		**387**	376	388
Derivative financial instruments		**640**	240	768
Finance lease receivables		**8**	11	10
Total financial assets		**1,035**	627	1,166
		37,258	34,781	36,869
Current assets				
Inventories		**96**	77	88
Finance lease receivables		**3**	3	3
Trade and other receivables		**456**	686	805
Derivative financial instruments		**205**	322	630
Held-to-maturity investments		**-**	11	-
Available-for-sale financial assets		**-**	621	-
Cash and cash equivalents		**2,674**	1,631	1,723
		3,434	3,351	3,249
Total assets		**40,692**	38,132	40,118
Current liabilities				
Trade and other payables		**(2,821)**	(2,660)	(3,675)
Bank overdrafts and loans	7	**(2,378)**	(4,245)	(1,773)
Derivative financial instruments		**(324)**	(2)	(73)
Short-term provisions		**(9)**	(11)	(9)
		(5,532)	(6,918)	(5,530)
Net current liabilities		**(2,098)**	(3,567)	(2,281)
Non-current liabilities				
Bank loans and debt issued	7	**(22,219)**	(18,506)	(21,192)
Derivative financial instruments		**(357)**	(20)	(406)
Other payables		**(1,617)**	(1,534)	(1,619)
Retirement benefit obligation		**(998)**	(617)	(664)
Deferred tax liabilities		**(3,263)**	(3,429)	(3,463)
Obligations under finance leases		**(1)**	(2)	(3)
		(28,455)	(24,108)	(27,347)
Total liabilities		**(33,987)**	(31,026)	(32,877)
Net assets		**6,705**	7,106	7,241

Consolidated balance sheet (continued)

	Notes	**Unaudited 30 September 2009 £m**	Unaudited 30 September 2008 £m	Audited 31 March 2009 £m
Equity				
Share capital		**160**	160	160
Share premium account		**85**	85	85
Revaluation reserve		**3,765**	4,618	4,298
Other reserve		**1,458**	1,458	1,458
Hedging reserve		**(256)**	(143)	(318)
Retained earnings		**1,493**	928	1,558
Total shareholders' funds and equity attributable to equity holders of the parent company		**6,705**	7,106	7,241

This interim financial report was approved by the Board of Directors on 26 November 2009.

It was signed on its behalf by:



Iain Coucher (Director)

Patrick Butcher (Director)

Consolidated cash flow statement

	Note	Unaudited six months ended 30 September 2009 £m	Unaudited six months ended 30 September 2008 £m	Audited year ended 31 March 2009 £m
Net cash generated from operating activities	8	**1,638**	1,636	2,811
Investing activities				
Interest received		**8**	46	78
Purchases of property, plant and equipment – the railway network		**(1,987)**	(2,111)	(4,601)
Proceeds on disposal of investment property		**-**	32	72
Capital grants received		**114**	103	191
Capital element of finance leases' receipts		**2**	1	3
Sales/purchases of financial investments		**-**	(577)	55
Acquisition of joint venture		**-**	-	(5)
Net cash used in investing activities		**(1,863)**	(2,506)	(4,207)
Financing activities				
Repayment of borrowings		**(227)**	(968)	(4,853)
Repayment of obligations under finance leases		**(2)**	(8)	(7)
New loans raised		**2,027**	2,934	6,374
Collateral (paid to)/received from counterparties		**(742)**	-	1,062
Gain on settlement of hedge to prefund debt repayment		**103**	-	-
Net cash generated from financing activities		**1,159**	1,958	2,576
Net increase in cash and cash equivalents		**934**	1,088	1,180
Effect of foreign exchange rates		**17**	-	-
Cash and cash equivalents at beginning of the period		**1,723**	543	543
Cash and cash equivalents at the end of the period		**2,674**	1,631	1,723

Notes to the interim financial statements

Six months ended 30 September 2009

1. General information

The information contained in this report for the year ended 31 March 2009 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for that year, which were prepared under IFRS, has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under Section 237 (2) or (3) of the Companies Act 1985.

Accounting policies

This interim financial report has been prepared in accordance with IFRSs, including IAS 34 "Interim Financial Reporting". The accounting policies and methods of computation used in this interim report are consistent with those used in the most recent annual report and accounts. A copy of this document is available on the Company's website: www.networkrail.co.uk.

The accounting policies applied are consistent with those adopted and disclosed in the Company's financial statements for the year ended 31 March 2009, with the exception of the adoption of IFRS 8 *Operating Segments*, IAS 1 *Presentation of Financial Statements – Revised* and IAS 1 *Presentation of Financial Statements – Improvements*.

The adoption of IFRS 8 has not resulted in any change to the segmental disclosures. The adoption of the revision to IAS 1 has resulted in the Income Statement being presented as the Statement of Comprehensive Income.

Going concern

The Directors have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

Business segments

No segmental analysis is provided because the Company operates one class of business, that of managing the national rail infrastructure and undertakes that class of business in one geographical segment, Great Britain.

2. Revenue

	Unaudited six months ended 30 September 2009 £m	Unaudited six months ended 30 September 2008 £m	Audited year ended 31 March 2009 £m
Passenger franchise revenue and network grant	**2,701**	2,934	5,799
Freight revenue	**28**	48	93
Property rental income	**103**	107	215
Other income	**11**	28	53
	2,843	3,117	6,160

The effect of the performance regimes on the results of the Group was net income of £58m (six months to 30 September 2008: net income of £35m).

3. Net operating costs

	Unaudited six months ended 30 September 2009 £m	Unaudited six months ended 30 September 2008 £m	Audited year ended 31 March 2009 £m
Employee costs*	**839**	817	1,656
Own costs capitalised	**(239)**	(217)	(662)
Other external charges (including infrastructure maintenance costs)	**704**	769	1,701
Other operating income	**(117)**	(106)	(232)
Net operating costs before depreciation	**1,187**	1,263	2,463
Depreciation and other amounts written off non-current assets	**587**	648	1,198
Capital grants amortised	**(25)**	(20)	(45)
Net operating costs	**1,749**	1,891	3,616

* The average number of employees (including Executive Directors) in the six months ended 30 September 2009 was 37,174 (six months ended 30 September 2008: 35,870). Annualised average cost per employee was £45,140 (six months ended 30 September 2008: £45,554).

4. Investment revenue and finance costs

	Unaudited six months ended 30 September 2009 £m	Unaudited six months ended 30 September 2008 £m	Audited year ended 31 March 2009 £m
Investment revenue			
Interest receivable on investments and deposits	**14**	71	136
Total investment revenue	**14**	71	136
Finance costs			
Interest payable on debt	**(606)**	(613)	(1,043)
Expected return on assets less interest on liabilities in respect of defined benefit pension scheme	**(20)**	(8)	(15)
Total borrowing costs	**(626)**	(621)	(1,058)
Less: amounts included in the cost of qualifying assets	**44**	48	112
Total finance costs	**(582)**	(573)	(946)

Other gains and losses			
Gains arising from ineffective portion of cash flow hedges	**5**	21	21
Losses arising from ineffective portion of cash flow hedges	**(3)**	(8)	(109)
Gain on disposal of cash flow hedge	**-**	5	-
Fair value losses on interest rate swaps transferred from equity	**(2)**	(7)	(4)
Gains/(losses) arising from cash flow hedge accounting	**-**	11	(92)
Increase in fair value of fair value hedges	**19**	118	597
Increase in fair value of fair value hedged debt	**(33)**	(121)	(569)
Gain on disposal of fair value hedge	**103**	-	-
Decrease in fair value of fair value hedges	**(356)**	(1)	-
Decrease in fair value of fair value hedged debt	**256**	2	-
(Losses)/gains arising from fair value hedge accounting	**(11)**	(2)	28
Increase in fair value of derivatives not hedge accounted	**26**	16	**169**
Increase in fair value of non hedge accounted debt	**(5)**	(11)	**(83)**
Decrease in fair value of derivatives not hedge accounted	**(343)**	(4)	**(94)**
Decrease in fair value of non hedge accounted debt	**4**	31	**-**
Decrease in fair value of non-hedge accounted investments	**-**	(10)	**-**
(Losses)/gains arising from non-hedge accounting	**(318)**	22	**(8)**
Foreign exchange gain on cash balances	**17**	-	**-**
Foreign exchange loss on unhedged debt	**(14)**	-	**-**
Gains arising from foreign exchange movements	**3**	-	-
Total other gains and losses	**(326)**	31	(72)

5. Tax

	Unaudited six months ended 30 September 2009 £m	Unaudited six months ended 30 September 2008 £m	Audited year ended 31 March 2009 £m
Current tax:			
UK corporation tax at 28% (2008: 28%):	**1**	9	10
Less advance corporation tax (ACT) set-off	**-**	(6)	(9)
Corporation tax liability	**1**	3	1
Group relief payable to Network Rail Holdco Limited	**-**	3	8
Total current tax	**1**	6	9
Deferred tax:			
Deferred tax at 28% (2008: 28%):			
Current year charge	**46**	192	414
Prior year credit	**-**	(9)	(32)
Abolition of Industrial Buildings Allowance	**-**	512	524
Total deferred tax	**46**	695	906
Total tax	**47**	701	915

The total tax rate in the interim period is 32.5% representing the best estimate of the effective tax rate expected for the full financial year.

The prior year interim effective tax rate was 99%, which included full recognition of the abolition of the Industrial Buildings Allowance. The legislation introducing the abolition was enacted in the year ended 31 March 2009 and this liability was fully reflected in the accounts in that year. The types of asset which qualified as an industrial building were stations, embankments, sea walls, depots and goods yards.

The rate used for the purposes of deferred tax in these accounts is 28% (2008: 28%) as this is the current rate and the rate at which the temporary differences are expected to reverse.

6. Property, plant and equipment – the railway network

	Group £m
Valuation	
At 1 April 2008	31,443
Additions	4,743
Depreciation charge for the year	(1,198)
Transfers to investment property	50
Revaluation in the year	(113)
At 31 March 2009	34,925
Additions	**1,791**
Depreciation charge for the period	**(587)**
Revaluation in the period	**(653)**
At 30 September 2009	**35,476**

The Group has chosen the railway network fixed asset valuation at 1 April 2002 to be the deemed cost of the network. This was the date of implementation of depreciated replacement cost accounting for railway network fixed assets under UK GAAP and from that date the Group has maintained appropriate accounting records to enable it to undertake accounting for fixed assets on an IFRS compliant basis.

In the year ended 31 March 2009 Ove Arup and Partners reviewed Network Rail Infrastructure Limited's engineering assessment of the replacement cost, depreciated replacement cost and serviceable economic lives of the major categories that comprise the railway network and confirmed in writing to the Directors that the basis upon which the assessment had been prepared was appropriate and the resultant valuations and estimates were reasonable.

As the depreciated replacement cost of the railway network significantly exceeds its value in use, it is impaired down to its value in use at each reporting date. Given the interdependency of the assets comprising the railway network, the Group has concluded that the railway network is a single cash generating unit and that its value in use is the estimated future cash flows that will be generated in perpetuity, discounted at the Group's pre-tax cost of capital, as set by the Office of Rail Regulation (ORR) in its Access Charges Review. The estimate of the value in use is based on the Regulatory Asset Base (RAB) which is, in effect, a discounted future cash flow calculation adjusted for the net present value of any variances from the ORR's Determination included in the Group's business plans.

The depreciation charge for any year is calculated using the average carrying value for the year and the estimated weighted average remaining useful economic life of the railway network. The estimated remaining weighted average economic life of the network is currently 30 years (2008: 25 years). The change in estimated useful economic lives was made from 1 October 2008 based on the findings of the Ove Arup Partners review.

7. Bank loans and overdrafts

	Unaudited 30 September 2009 £m	Unaudited 30 September 2008 £m	Audited 31 March 2009 £m
Bank loans and overdrafts	**1,314**	1,420	1,311
Bonds issued under the Debt Issuance Programme (less unamortised discount and fees)	**23,283**	17,201	21,469
Debt issued under Medium Term Note Programme (less unamortised discount and fees)	**-**	3,945	-
Kreditanstalt fur Wiederaufbau facility	**-**	185	185
	24,597	22,751	22,965
The borrowings are repayable as follows:			
On demand or due within one year	**2,378**	4,245	1,773
Due within one to two years	**2,342**	2,156	2,159
Due within two to five years	**2,411**	3,700	3,807
Due in more than five years	**17,466**	12,650	15,226
	24,597	22,751	22,965
Less: amounts repayable within one year (shown under current liabilities):			
Bank loans and overdrafts	**(2)**	(115)	-
Bonds issued under Debt Issuance Programme (less unamortised discount and fees)	**(2,376)**	-	(1,588)
Debt issued under Medium Term Note Programme (less unamortised discount and fees)	**-**	(3,945)	-
Kreditanstalt fur Wiederaufbau facility	**-**	(185)	(185)
Amounts repayable within one year	**(2,378)**	(4,245)	(1,773)
Amounts repayable after more than one year	**22,219**	18,506	21,292

All borrowings are denominated in or swapped into sterling.

7. Bank loans and overdrafts (continued)

Bonds issued under the Debt Issuance Programme are analysed as follows*:

	Unaudited 30 September 2009 £m	Unaudited 30 September 2008 £m	Audited 31 March 2009 £m
1.085% sterling index linked bond due 2052	**104**	105	102
0% sterling index linked bond due 2052	**102**	104	101
1.003% sterling index linked bond due 2051	**19**	-	20
0.53% sterling index linked bond due 2051	**102**	102	100
0.517% sterling index linked bond due 2051	**101**	101	101
0% sterling index linked bond due 2051	**105**	104	103
0.678% sterling index linked bond due 2048	**99**	100	98
1.125% sterling index linked bond due 2047	**2,091**	519	1,303
0% sterling index linked bond due 2047	**64**	66	66
1.335% sterling index linked bond due 2045	**39**	-	-
1.5646% sterling index linked bond due 2044	**233**	223	227
1.1565% sterling index linked bond due 2043	**44**	-	-
1.1845% sterling index linked bond due 2041	**54**	-	-
1.2219% sterling index linked bond due 2040	**231**	221	226
1.2025% sterling index linked bond due 2039	**59**	-	-
4.6535% sterling bond due 2038	**100**	100	100
1.375% sterling index linked bond due 2037	**3,782**	1,767	3,514
7.05% US dollar bond due 2036	**-**	16	21
6.91% US dollar bond due 2036	**-**	16	21
4.75% sterling bond due 2035	**1,218**	1,221	1,218
1.6492% sterling index linked bond due 2035	**348**	335	341
4.375% sterling bond due 2030	**869**	813	869
1.75% sterling index linked bond due 2027	**2,964**	2,035	2,010
4.57% Norwegian krone bond due 2026	**15**	12	16
4.615% Norwegian krone bond due 2026	**55**	45	58
1.9618% sterling index linked bond due 2025	**296**	283	288
4.75% sterling bond due 2024	**725**	723	724
2.28% Japanese yen bond due 2021	**72**	53	71
2.315% Japanese yen bond due 2021	**73**	53	71
2.15% Japanese yen bond due 2021	**72**	53	70
2.76% Swiss Franc bond due 2021	**178**	137	173
4.625% sterling bond due 2020	**994**	973	994
4.4% Canadian dollar bond due 2016	**301**	263	291
6% Australian dollar bond due 2016	**267**	222	248
4.875% sterling bond due 2015	**989**	990	989
3.5% US dollar bond due 2013	**775**	699	865
4.875% sterling bond due 2012	**995**	994	994
2% US dollar bond due 2012	**632**	-	692
4.375% sterling bond due 2011	**448**	448	449
5.25% US dollar bond due 2011	**667**	591	742
3% US dollar bond due 2011	**625**	560	697
5.5% Australian dollar bond due 2010	**469**	378	410
5.125% sterling bond due 2010	**500**	499	499
3.875% US dollar bond due 2009	**626**	561	698
4.875% US dollar bond due 2009	**781**	716	889
	23,283	17,201	21,469

*Amounts are shown net of unamortised discount and fees.

7. Bank loans and overdrafts (continued)

Debt issued under the Medium Term Note programme is analysed as follows*:

	Unaudited 30 September 2009 £m	Unaudited 30 September 2008 £m	Audited 31 March 2009 £m
3 1/8% Euro medium term note due 2009	-	1,921	-
4 7/8% Sterling medium term note due 2009	-	2,024	-
	-	3,945	-

*Amounts are shown net of unamortised discount and fees.

Bank loans and overdrafts are analysed as follows:

	Unaudited 30 September 2009 £m	Unaudited 30 September 2008 £m	Audited 31 March 2009 £m
Index-linked European Investment Bank due 2037	384	376	383
HSBC Bank due 2019 repayable by instalments	208	207	206
Barclays Bank due 2017 repayable by instalments	53	55	53
Royal Bank of Scotland due 2017 repayable by instalments	69	68	69
5.57% European Investment Bank due 2013	200	200	200
5.77% European Investment Bank due 2012	300	300	300
6.42% European Investment Bank due 2011	100	100	100
6.42% European Investment Bank due 2009	-	100	-
Money market borrowings	-	14	-
	1,314	1,420	1,311

8. Notes to the cash flow statement

	Unaudited six months ended 30 September 2009 £m	Unaudited six months ended 30 September 2008 £m	Audited year ended 31 March 2009 £m
Operating profit	**1,094**	1,226	2,544
Adjustments for:			
Depreciation of the railway network	**587**	648	1,198
Amortisation of capital grants	**(25)**	(20)	(45)
Amortisation of intangible assets	**-**	-	1
Decrease in provisions	**-**	(1)	(3)
Operating cash flows before movements in working capital	**1,656**	1,853	3,695
Increase in inventories	**(8)**	(13)	(24)
Decrease/(increase) in receivables	**389**	18	(85)
(Decrease)/increase in payables	**(197)**	17	138
Cash generated from operations	**1,840**	1,875	3,724
Income taxes paid	**(1)**	(1)	(9)
Interest paid	**(201)**	(238)	(904)
Net cash generated from operating activities	**1,638**	1,636	2,811

Cash and cash equivalents (which are represented as a single class of assets on the face of the balance sheet) comprise cash at bank and investments with a maturity of up to three months.

9. Analysis of changes in net debt

	At 1 April 2009 £m	Cash flows £m	Non cash movements £m	Capital accretion £m	Amortisation of discount £m	Fair value remeasurements £m	Foreign exchange differences £m	At 30 September 2009 £m
Cash and cash equivalents*	**661**	1,676	-	-	-	-	17	**2,354**
Borrowings due within one year	**(1,773)**	185	(910)	-	-	121	(1)	**(2,378)**
Borrowings due after one year	**(21,192)**	(1,985)	910	(211)	(5)	101	163	**(22,219)**
Obligations under finance leases	**(3)**	2	-	-	-	-	-	**(1)**
Financial investments	**-**							
	(22,307)	(122)	-	(211)	(5)	222	179	**(22,244)**

* Excludes collateral of £320m (31 March 2009: £1,062m)

	At 1 October 2008 £m	Cash flows £m	Non cash movements £m	Capital accretion £m	Amortisation of discount £m	Fair value remeasurements £m	Foreign exchange differences £m	At 31 March 2009 £m
Cash and cash equivalents*	1,631	(970)	-	-	-	-	-	**661**
Borrowings due within one year	(4,245)	4,098	(1,061)	-	(2)	(235)	(328)	**(1,773)**
Borrowings due after one year	(18,506)	(3,653)	1,061	43	(3)	(318)	184	**(21,192)**
Obligations under finance leases	(2)	(1)	-	-	-	-	-	**(3)**
Financial investments	632	(632)	-	-	-	-	-	**-**
	(20,490)	(1,158)	-	43	(5)	(553)	(144)	**(22,307)**

* Excludes collateral of £nil (31 March 2009: £1,062m)

	At 1 April 2008 £m	Cash flows £m	Non cash movements £m	Capital accretion £m	Amortisation of discount £m	Fair value remeasurements £m	Foreign exchange differences £m	At 30 September 2008 £m
Cash and cash equivalents	543	1,088	-	-	-	-	-	**1,631**
Borrowings due within one year	(5,077)	755	-	-	(3)	-	80	**(4,245)**
Borrowings due after one year	(15,255)	(2,721)	-	(97)	(7)	(99)	(327)	**(18,506)**
Obligations under finance leases	(9)	7	-	-	-	-	-	**(2)**
Financial investments	55	577	-	-	-	-	-	**632**
	(19,743)	(294)	-	(97)	(10)	(99)	(247)	**(20,490)**

10. Contingent liabilities

Provision has been made for the Directors' best estimate of the known claims, investigations and legal actions in progress.

11. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Company's ultimate parent company and controlling entity is Network Rail Limited, a company limited by guarantee without shares. The Company's immediate parent company is Network Rail Holdco Limited.