Network Rail Limited

Interim financial statements

Six months ended 30 September 2011

Contents

Financial highlights

	Unaudited six months ended 30 September 2011 £m	Unaudited six months ended 30 September 2010 £m	Variance £m	Variance %
Revenue	**2,997**	2,870	127	4.4%
Net operating costs excluding depreciation and amortisation	**(1,117)**	(1,146)	29	(2.5%)
Net operating costs	**(1,767)**	(1,740)	(27)	(1.6%)
Operating profit	**1,230**	1,130	100	8.6%
Profit after taxation	**136**	277	(141)	(50.9%)
Net cash from operating activities	**1,537**	1,594	(57)	(3.6%)
Capital expenditure	**2,071**	1,732	339	19.6%

	Unaudited 30 September 2011 £m	Audited year ended 31 March 2011 £m	Movement £m
Net debt	**25,745**	25,056	689
Net assets	**8,061**	7,085	976
Property, plant and equipment – the railway network	**42,112**	39,577	2,535
Investment property	**879**	778	101

Commentary

Summary

The interim results for the half year to 30 September 2011 mark the mid-point of the five-year settlement running to 2014.

Network Rail remains broadly on course to meet its tough efficiency challenge and thus its commitment to drive down the cost of the railway.

Network Rail's running costs are, in real terms, over £300m lower in the first six months of the financial year than the prevailing costs back in 2008-9, when the efficiency challenge was set. The forecast is to achieve over £700m of savings by the end of the year.

The pace of delivery of Network Rail's investment activities, aimed at renewing the railway network and increasing capacity, has increased with over £300m (20%) more invested in the first six months compared to the same period last year.

Comparing the six months under review to the same period in 2010, 92.8% of trains ran on time compared to 93.5% last year. Performance has been adversely impacted by increasing levels of cable theft. However Network Rail continues to reduce the number of infrastructure failures.

Network Rail remains committed to running a safe railway with increasing cost efficiency, investment and performance. As Network Rail devolves responsibilities for much decision making from the corporate centre to its routes, it will create a platform for new collaborative ways of working with its customers that will drive down the overall cost of the railway.

Efficiencies

In autumn 2008 Network Rail was set the demanding challenge by the Office of Rail Regulation of cutting costs by 22% between 2009 and 2014. The measurement of efficiency is a complex task best done over a number of years. In a capital intensive business like Network Rail this involves a degree of judgement. By the end of last year an estimated 13% had been saved and in the half year efficiencies have contributed to further savings of over £300m. Network Rail forecasts to achieve over £700m in this financial year. Total efficiency over the first three years of this control period is forecast to reach between 16% to 17%. This has been achieved by delivering capital works for less, better asset management, and by reducing operating and maintenance costs.

Investment

Delivery of works has increased by over 20% on the same period last year, with over £2bn invested in the railway in the half year. Significant progress has been made on the upgrade of Thameslink with major work at Farringdon and Blackfriars, as well as with projects at King's Cross, Birmingham New Street, Reading, and on Crossrail.

Major works in Scotland include Paisley Corridor improvements.

Other projects completed in the half year include work on the upgrade of the Cotswold line and the Evergreen 3 mainline project. As a result of completion of the latter, the Chiltern Railways new timetable was launched in early September. This reduces journey times to Birmingham Moor Street to 90 minutes.

Revenues

Revenue increased in the period in line with the business plan. Most of Network Rail's turnover is indexed to RPI – the effective rate for the period was 4.7%, and turnover increased accordingly. Network Rail's income is largely fixed by the regulatory regime which means that great emphasis is placed on cost efficiency and ensuring marginal costs are exceeded by marginal income.

Debt

Net debt of £25,745m remains at an expected level, up from £25,056m at year end. The increase is largely due to capital investment and the increase in the valuation of RPI-linked bonds. Network Rail is confident that its debt is well managed and the company has a policy of appropriate hedging. The group issued three bonds in the half year and its issuance programme remains attractive to the market.

Assets

The valuation of the railway network increased to £42,112m at 30 September 2011 from £39,577m at 31 March 2011, reflecting £2,071m of capital investment in the infrastructure over the last six months, depreciation of £681m and a revaluation of £1,145m.

Risks and Uncertainties

The principal risks and uncertainties affecting the business activities of the Group were identified under the heading 'Business Risk Management', set out on pages 19 to 21 of the Annual Report and Accounts for the year ended 31 March 2011, a copy of which is available on the Group's website www.networkrail.co.uk

The key Group risks are summarised under the headings of:

- Safety;
- Performance;
- External environment;
- Network enhancement;
- Finance; and
- People.

In the view of the Board the key risks and uncertainties for the remaining six months of the financial year continue to be those set out in the above section of the 2011 Annual Report and Accounts. In particular it should be noted that the autumn and winter seasons provide additional performance risks, due to increases in weather-related and track adhesion-related delays. The critical accounting judgements and key sources of uncertainties relating to these interim financial statements are set out on page 17.

Outlook

Over the next six months Network Rail will undertake a major transition, with all the newly devolved routes planning their businesses and taking decisions that draw on local knowledge. The structures for new ways of working and partnerships with customers are in place, and in this way Network Rail will continue to provide a leading role in changing the rail industry. This and other strategic change programmes represent a major reform to the structure of Network Rail

These results show that Network Rail is continuing to both drive down costs and increase capacity on the railway. These achievements meet commitments to achieve efficiencies and to deliver better value-for-money for the rail industry, rail-users and tax-payers.

Patrick Butcher
Finance Director
23 November 2011

Statement of directors' responsibilities

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed consolidated interim financial information and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report.

The Directors of Network Rail Limited are listed in the Network Rail Limited Report and Accounts for the year ended 31 March 2011. Since those accounts there have been two changes to the Board composition in that Keith Ludeman was appointed as a director on 5th July 2011 and Hazel Walker resigned as Company Secretary on 30th September 2011. A list of current Directors is available on the Company's website: www.networkrail.co.uk.

Independent review report

to Network Rail Limited

Introduction

We have been engaged by the company to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 September 2011, 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 10. 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.

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 consolidated 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 consolidated set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 enquiries, 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 consolidated set of financial statements in the half-yearly financial report for the six months ended 30 September 2011 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
23 November 2011
London, United Kingdom

Consolidated income statement

		Unaudited six months ended 30 September 2011			Unaudited six months ended 30 September 2010		
		Results pre debt and derivative revaluations	Debt and derivative revaluations (Note 4)	Total	Results pre debt and derivative revaluations	Results post debt and derivative revaluations*	Audited year ended 31 March 2011*
	Notes	£m	£m	£m	£m	£m	£m
Revenue	2	**2,997**	**-**	**2,997**	2,870	2,870	5,712
Net operating costs	3	**(1,767)**	**-**	**(1,767)**	(1,740)	(1,740)	(3,674)
Operating profit		**1,230**	**-**	**1,230**	1,130	1,130	2,038
Revaluation movements and profits on disposal of properties		**8**	**-**	**8**	(6)	(6)	11
Total profit from operations		**1,238**	**-**	**1,238**	1,124	1,124	2,049
Investment revenue	4	**6**	**-**	**6**	10	10	77
Other gains and losses	4	**-**	**(418)**	**(418)**	-	(165)	(183)
Finance costs	4	**(753)**	**-**	**(753)**	(670)	(670)	(1,501)
Profit before tax		**491**	**(418)**	**73**	464	299	442
Tax	5	**(46)**	**109**	**63**	(76)	(22)	(122)
Profit after tax for the period		**445**	**(309)**	**136**	388	277	320

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

* Debt and derivative revaluations resulted in £165m of expense before tax in the six months to 30 September 2010 and £183m expense before tax in the year to 31 March 2011. These amounts are included in “Other gains & losses”.

Consolidated statement of comprehensive income

	Unaudited six months ended 30 September 2011 £m	Unaudited six months ended 30 September 2010 £m	Audited year ended 31 March 2011 £m
Profit for the period	**136**	277	320
Gains/(loss) on revaluation of the railway network	**1,145**	805	222
Movement in fair value of hedging derivatives	**7**	(371)	(251)
Reclassification of balances in hedging reserve to finance costs in the income statement	**2**	-	5
Exchange differences on cash flow hedges taken to the hedging reserve and reclassified to the income statement	**(22)**	202	360
	(13)	(169)	114
Actuarial (losses)/gains on defined benefit pension schemes	**(37)**	(112)	545
Impact of change in tax rate	**41**	38	75
Tax relating to components of other comprehensive income	**(296)**	(147)	(135)
Other comprehensive income for the period	**840**	415	821
Total comprehensive income for the period attributable to equity shareholders	**976**	692	1,141

Consolidated statement of changes in equity

	Revaluation Reserve £m	Other Reserve £m	Hedging Reserve £m	Retained Earnings £m	Total £m
Balance at 31 March 2011 (Audited)	**2,957**	**249**	**(165)**	**4,044**	**7,085**
Profit for the period	-	-	-	136	**136**
Impact of change in tax rate	53	-	(9)	(3)	**41**
Revaluation of the railway network	1,145	-	-	-	**1,145**
Transfer of deemed cost depreciation from revaluation reserve	(81)	-	-	81	**-**
Movement in fair value of hedging derivatives	-	-	7	-	**7**
Exchange differences on cash flow hedges reclassified from the hedging reserve	-	-	(22)	-	**(22)**
Reclassification of balances in hedging reserve to finance costs in the income statement	-	-	2	-	**2**
Actuarial losses on defined benefit pension schemes	-	-	-	(37)	**(37)**
Tax relating to components of other comprehensive income	(287)	-	2	(11)	**(296)**
Balance at 30 September 2011 (Unaudited)	**3,787**	**249**	**(185)**	**4,210**	**8,061**

	Revaluation Reserve £m	Other Reserve £m	Hedging Reserve £m	Retained Earnings £m	Total £m
Balance at 30 September 2010 (Unaudited)	**3,375**	**249**	**(460)**	**3,472**	**6,636**
Profit for the period	-	-	-	43	**43**
Impact of change in tax rate	52	-	(6)	(9)	**37**
Revaluation of the railway network	(583)	-	-	-	**(583)**
Transfer of deemed cost depreciation from revaluation reserve	(71)	-	-	71	**-**
Movement in fair value of hedging derivatives	-	-	120	-	**120**
Exchange differences on cash flow hedges taken to the hedging reserve	-	-	158	-	**158**
Reclassification of balances in hedging reserve to finance costs in the income statement	-	-	5	-	**5**
Actuarial gains on defined benefit pension schemes	-	-	-	657	**657**
Tax relating to components of other comprehensive income	184	-	18	(190)	**12**
Balance at 31 March 2011 (Audited)	**2,957**	**249**	**(165)**	**4,044**	**7,085**

Consolidated statement of changes in equity (continued)

	Revaluation Reserve £m	Other Reserve £m	Hedging Reserve £m	Retained Earnings £m	Total £m
Balance at 31 March 2010 (Audited)	**2,807**	**249**	**(334)**	**3,222**	**5,944**
Profit for the period	-	-	-	277	**277**
Impact of change in tax rate	51	-	(4)	(9)	**38**
Revaluation of the railway network	805	-	-	-	**805**
Transfer of deemed cost depreciation from revaluation reserve	(87)	-	-	87	**-**
Decrease in fair value of hedging derivatives	-	-	(371)	-	**(371)**
Exchange differences on cash flow hedges reclassified from the hedging reserve	-	-	202	-	**202**
Actuarial losses on defined benefit pension schemes	-	-	-	(112)	**(112)**
Tax relating to components of other comprehensive income	(201)	-	47	7	**(147)**
Balance at 30 September 2010 (Unaudited)	**3,375**	**249**	**(460)**	**3,472**	**6,636**

Consolidated balance sheet

	Notes	Unaudited 30 September 2011 £m	Unaudited 30 September 2010 £m	Audited 31 March 2011 £m
Assets				
Non-current assets				
Intangible assets		**71**	68	71
Property, plant and equipment – the railway network	6	**42,112**	38,540	39,577
Investment property		**879**	760	778
Investments in joint ventures		**6**	5	5
Derivative financial instruments		**736**	584	576
Finance lease receivables		**6**	7	6
Total financial assets		**748**	596	587
		43,810	39,964	41,013
Current assets				
Inventories		**134**	120	108
Trade and other receivables		**681**	662	911
Derivative financial instruments		**5**	239	104
Cash and cash equivalents		**1,630**	1,055	771
		2,450	2,076	1,894
Total assets		**46,260**	42,040	42,907
Current liabilities				
Trade and other payables		**(3,058)**	(2,799)	(2,823)
Current tax liabilities		**(5)**	(3)	(3)
Bank overdrafts and loans	7	**(2,219)**	(1,816)	(2,317)
Derivative financial instruments		**(657)**	(358)	(373)
Short-term provisions		**(14)**	(36)	(17)
		(5,953)	(5,012)	(5,533)
Net current liabilities		**(3,503)**	(2,936)	(3,639)
Non-current liabilities				
Bank loans and debt issued	7	**(25,021)**	(22,969)	(23,349)
Derivative financial instruments		**(718)**	(767)	(574)
Other payables		**(2,389)**	(2,196)	(2,496)
Retirement benefit obligation		**(537)**	(1,127)	(485)
Deferred tax liabilities		**(3,581)**	(3,333)	(3,385)
		(32,246)	(30,392)	(30,289)
Total liabilities		**(38,199)**	(35,404)	(35,822)
Net assets		**8,061**	6,636	7,085

Consolidated balance sheet (continued)

	Notes	Unaudited 30 September 2011 £m	Unaudited 30 September 2010 £m	Audited 31 March 2011 £m
Equity				
Revaluation reserve		**3,787**	3,375	2,957
Other reserve		**249**	249	249
Hedging reserve		**(185)**	(460)	(165)
Retained earnings		**4,210**	3,472	4,044
Total shareholders' funds and equity attributable to equity holders of the parent company		**8,061**	6,636	7,085

This interim financial report was approved by the Board of Directors on 23 November 2011.

It was signed on its behalf by:

Patrick Butcher (Director)

Consolidated cash flow statement

	Note	Unaudited six months ended 30 September 2011 £m	Unaudited six months ended 30 September 2010 £m	Audited year ended 31 March 2011 £m
Net cash from operating activities	8	**1,537**	1,594	2,486
Investing activities				
Interest received		**6**	10	77
Purchases of property, plant and equipment – the railway network		**(2,112)**	(1,831)	(3,759)
Gain/(loss) on disposal of properties		**4**	(3)	12
Capital grants received		**309**	157	186
Capital element of finance leases' receipts		**2**	1	2
Net cash from investing activities		**(1,791)**	(1,666)	(3,482)
Financing activities				
Repayment of borrowings		**(546)**	(889)	(1,926)
New loans raised		**1,685**	1	1,782
Collateral repaid to counterparties		**(26)**	(306)	(395)
Repayments of obligations under finance lease		**-**	-	(15)
Net cash from financing activities		**1,113**	(1,194)	(554)
Net increase/(decrease) in cash and cash equivalents		**859**	(1,266)	(1,550)
Cash and cash equivalents at beginning of the period		**771**	2,321	2,321
Cash and cash equivalents at the end of the period		**1,630**	1,055	771

Notes to the interim financial statements

Six months ended 30 September 2011

1. General information

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2011 were approved by the Board of Directors on 8 June 2011 and delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements are prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Services Authority. The condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union.

This condensed consolidated interim financial information has been reviewed, not audited. The condensed consolidated interim financial information should be read in conjunction with the Annual Report and Accounts for the year ended 31 March 2011, which have been prepared in accordance with IFRSs as adopted by the European Union. A copy of this document is available on the Company's website: www.networkrail.co.uk

Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2011, as described in those financial statements.

The following accounting standards, amendments and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee are effective for the Group's accounting periods beginning on or after 1 April 2011:

- Improvements to IFRSs (April 2010)
- Amendment to IAS 24 (revised) 'Related party disclosures'
- Amendment to IFRIC 14 'Prepayment of a minimum funding requirement'
- IFRIC 19 'Extinguishing financial liabilities with equity instruments'

These accounting standards, amendments and interpretations have had no material effect on the results or financial position of the Group disclosed within the Group half-yearly financial statements.

At the balance sheet date, the following accounting standards, amendments and interpretations had been issued but are not yet effective for the Group and have not been early adopted:

- Improvements to IFRSs (April 2011)
- Amendment to IFRS 7 'Financial instruments : disclosures'

- IFRS 9 'Financial instruments : classification and measurement'
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosure of interests in other entities'
- IFRS 13 'Fair value remeasurements'
- Amendment to IAS 1 'Financial statements presentation'
- Amendment to IAS 12 'Income taxes'
- Amendment to IAS 19 (revised) 'Employee benefits'
- IAS 27 (revised) 'Separate financial statements'
- IAS 28 (revised) 'Associate and joint ventures'

If these accounting standards, amendments and interpretations had been adopted, there would have been no material effect on the results or financial position of the Group disclosed within these financial statements.

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.

Critical accounting judgements and key sources of uncertainty

The principal risks managed by Network Rail are unchanged from those set out in the Network Rail Limited Annual Report and Accounts 2011 in the Directors report pages 20-21 and in Note 27 Funding and Financial Risk Management on pages 103-108. The key accounting judgements and sources of uncertainty at the half year are set out below.

(i) Property, plant and equipment – the railway network: the estimate of the fair value of the railway network is based on an income approach using the regulatory asset base, which equates to the discounted future cash flow associated with the network, adjusted for the net present value of any variances from the Office of Rail Regulation's determination included in the Group's Business Plan. The methodology of the valuation and critical judgements therein are discussed in detail in Note 12 to Network Rail Limited Annual Report and Accounts 2011 on pages 90-92 and remain largely unchanged. The additional critical judgement at interim is to forecast the inflation to be applied to the regulatory asset base. Inflation is applied using the November 2011 Retail Prices Index (published in December 2011). This is estimated at 5.25% and for every 10 basis points variance from that forecast the regulatory asset base, on which the valuation is based, will vary by £40m.

(ii) Investment property: the investment property portfolio valuation is determined using the Beacon method. King Sturge provided their assessment of yields for 12 properties in the portfolio. These are then used to produce income multipliers and applied to the rental streams from each of the individual properties in the portfolio to form an overall valuation. The method of calculation is the same as set out in Note 13 in Network Rail Limited Annual Report and Accounts 2011.

(iii) Retirement benefit obligations: the Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 28 in Network Rail Limited Annual Report and Accounts 2011. The key changes at interim are that the discount rate has reduced to 5.5% from 5.55% and the RPI assumption has decreased from 3.5% to 3.1%. Changes of twenty five basis points in the combined effect of the discount rate and inflation assumption affects the defined benefit obligation by approximately £200m and the retirement benefit obligation by around £120m. The total contribution rate payable under the Railway Pension Scheme (RPS) and the Career Average Revalued Earnings (CARE) scheme is normally split in the proportion 60:40 between the Group and the members, respectively. The Group reflects its share of the contribution in the financial statements.

(iv) Provisions: provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Balance sheet date and are discounted to present value where the effect is material.

(v) Hedge Accounting: Network Rail's hedging strategy aims to achieve a known fixed rate on current and future debt issuances. A key judgement is in relation to the highly probable future issuances. At 30 September 2011 Network Rail has deferred derivatives with a market value of £275m in equity to use against highly probable and expected future issuances. Interest rate swaps with a market value of around £150m are due to start before 31 March 2012.

2. Revenue

	Unaudited six months ended 30 September 2011 £m	Unaudited six months ended 30 September 2010 £m	Audited year ended 31 March 2011 £m
Passenger franchise revenue and network grant	**2,861**	2,734	5,408
Freight revenue	**25**	25	43
Property rental income	**100**	100	244
Other income	**11**	11	17
	2,997	2,870	5,712

The effect of the performance regimes on the results of the Group was net income of £24m (six months to 30 September 2010: net income of £45m).

3. Net operating costs

	Unaudited six months ended 30 September 2011 £m	Unaudited six months ended 30 September 2010 £m	Audited year ended 31 March 2011 £m
Employee costs*	**851**	839	1,734
Own costs capitalised	**(278)**	(244)	(623)
Other external charges (including infrastructure maintenance costs)	**658**	661	1,601
Other operating income	**(114)**	(110)	(245)
Net operating costs before depreciation	**1,117**	1,146	2,467
Depreciation and other amounts written off non-current assets	**681**	626	1,271
Capital grants amortised	**(31)**	(32)	(64)
Net operating costs	**1,767**	1,740	3,674

* The average number of employees (including Executive Directors) in the six months ended 30 September 2011 was 34,336 (six months ended 30 September 2010: 35,464). Annualised average cost per employee, including pension contributions and employer's NI, was £49,556 (six months ended 30 September 2010: £47,331).

4. Investment revenue, finance costs and other gains and losses

	Unaudited six months ended 30 September 2011 £m	Unaudited six months ended 30 September 2010 £m	Audited year ended 31 March 2011 £m
Investment revenue			
Interest receivable on investments and deposits	**6**	10	77
Total investment revenue	**6**	10	77
Finance costs			
Interest payable on debt	**(810)**	(710)	(1,591)
Expected return on assets less interest on liabilities in respect of defined benefit pension scheme	**(1)**	(14)	(27)
Total borrowing costs	**(811)**	(724)	(1,618)
Less: capitalised interest	**58**	54	117
Total finance costs	**(753)**	(670)	(1,501)
Other gains and losses			
Net ineffectiveness arising from cash flow hedge accounting	**(123)**	(12)	(44)
Net increase/(decrease) in fair value of fair value hedges	**38**	(31)	(127)
Net (increase)/decrease in fair value of fair value hedged debt	**(49)**	33	117
(Losses)/gains arising from fair value hedge accounting	**(11)**	2	(10)
Decrease in fair value of derivatives not hedge accounted	**(247)**	(128)	(94)
Increase in fair value of non hedge accounted debt	**(37)**	(27)	(20)
Decrease in fair value of non-hedge accounted investments	**-**	-	(15)
Losses arising from non-hedge accounting	**(284)**	(155)	(129)
Total other gains and losses	**(418)**	(165)	(183)

5. Tax

	Unaudited six months ended 30 September 2011 £m	Unaudited six months ended 30 September 2010 £m	Audited year ended 31 March 2011 £m
Current tax:			
UK corporation tax at 26% (2010: 28%):	**-**	(1)	(19)
Less advance corporation tax (ACT) set-off	**-**	-	13
Corporation tax liability	**-**	(1)	(6)
Prior year (charge)/credit	**-**	-	(4)
Total current tax	**-**	(1)	(10)
Deferred tax:			
Deferred tax at 25% (2010: 26%):			
Current year charge	**(24)**	(96)	(131)
Change of corporation tax rate	**87**	75	163
Prior year credit	**-**	-	(144)
Total deferred tax	**63**	(21)	(112)
Total tax	**63**	(22)	(122)

The total tax rate in the interim period is -88.0% (2010: 18.1%). This represents the impact of the change in the corporate tax rate from 26% to 25% and the effective tax rate expected for the full financial year. The interim tax charge includes an £87m reduction in deferred tax in respect of changes to the corporation tax rate.

The rate used for the purposes of deferred tax in these accounts is 25% (2010: 26%) as this is the current rate and the rate at which the temporary differences are expected to reverse.

There are no current tax charges in the period as Network Rail has significant losses which are brought forward.

6. Property, plant and equipment – the railway network

	Group £m
Valuation	
At 1 April 2010	36,629
Additions	3,997
Depreciation charge for the year	(1,271)
Revaluation in the year	222
At 31 March 2011	39,577
Additions	2,071
Depreciation charge for the period	(681)
Revaluation in the period	1,145
At 30 September 2011	**42,112**

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 fair value is the estimated future cash flows that will be generated in perpetuity, discounted at the regulatory pre-tax cost of capital, as set by the Office of Rail Regulation (ORR) in its Periodic Review. The estimate of the fair value is based on the regulatory asset base (RAB) which is based on 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 plan. This takes into account: the provisional ORR RAB balance; any regulatory out/under-performance derived by comparing future income and expenditure projections, in the Group's business plan, against the regulatory settlement; assets funded directly by third party contributions rather than RAB funded; and an adjustment to reflect that a subset of this valuation is disclosed separately as investment properties.

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 weighted average remaining economic life of the railway network was calculated using the engineering assessment of serviceable economic lives of the major categories that comprise the railway network. The estimated remaining weighted average useful economic life of the network is currently 30 years (2010: 30 years).

7. Bank loans and overdrafts

	Unaudited 30 September 2011 £m	Unaudited 30 September 2010 £m	Audited 31 March 2011 £m
Bank loans and overdrafts	**1,245**	1,330	1,231
Bonds issued under the Debt Issuance Programme (less unamortised discount and fees)	**25,846**	23,455	24,435
Commercial Paper	**149**	-	-
	27,240	24,785	25,666
The borrowings are repayable as follows:			
On demand or due within one year	**2,219**	1,816	2,317
Due within one to two years	**2,100**	1,951	938
Due within two to five years	**4,141**	1,660	3,993
Due in more than five years	**18,780**	19,358	18,418
	27,240	24,785	25,666
Less: amounts repayable within one year (shown under current liabilities):			
Bank loans and overdrafts	**(302)**	(100)	(6)
Bonds issued under Debt Issuance Programme (less unamortised discount and fees)	**(1,768)**	(1,716)	(2,311)
Commercial Paper	**(149)**	-	-
Amounts repayable within one year	**(2,219)**	(1,816)	(2,317)
Amounts repayable after more than one year	**25,021**	22,969	23,349

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 2011 £m	Unaudited 30 September 2010 £m	Audited 31 March 2011 £m
1.085% sterling index linked bond due 2052	**114**	108	111
0% sterling index linked bond due 2052	**103**	102	103
1.003% sterling index linked bond due 2051	**21**	20	21
0.53% sterling index linked bond due 2051	**110**	105	107
0.517% sterling index linked bond due 2051	**110**	104	106
0% sterling index linked bond due 2051	**118**	111	115
0.678% sterling index linked bond due 2048	**109**	103	107
1.125% sterling index linked bond due 2047	**3,667**	3,475	3,587
0% sterling index linked bond due 2047	**71**	71	65
1.1335% sterling index linked bond due 2045	**45**	42	44
1.5646% sterling index linked bond due 2044	**247**	234	238
1.1565% sterling index linked bond due 2043	**50**	47	49
1.1795% sterling index linked bond due 2041	**61**	58	60
1.2219% sterling index linked bond due 2040	**245**	233	236
1.2025% sterling index linked bond due 2039	**67**	63	65
4.6535% sterling bond due 2038	**100**	100	100
1.375% sterling index linked bond due 2037	**4,176**	3,952	4,085
4.75% sterling bond due 2035	**1,225**	1,223	1,224
1.6492% sterling index linked bond due 2035	**373**	354	359
4.375% sterling bond due 2030	**870**	869	870
1.75% sterling index linked bond due 2027	**3,262**	3,091	3,193
4.57% Norwegian krone bond due 2026	**17**	15	15
4.615% Norwegian krone bond due 2026	**57**	54	54
1.9618% sterling index linked bond due 2025	**313**	297	301
4.75% sterling bond due 2024	**728**	727	728
2.28% Japanese yen bond due 2021	**92**	84	81
2.315% Japanese yen bond due 2021	**92**	84	82
2.15% Japanese yen bond due 2021	**91**	83	80
2.76% Swiss franc bond due 2021	**212**	211	204
4.625% sterling bond due 2020	**997**	997	997
4.4% Canadian dollar bond due 2016	**305**	331	321
6% Australian dollar bond due 2016	**310**	308	322
1.25% US dollar bond due 2016	**640**	-	-
4.875% sterling bond due 2015	**994**	993	994
1.5% US dollar bond due 2014	**982**	-	938
2.5% sterling bond due 2014	**1,008**	-	748
Floating rate US dollar bond due 2013	**642**	-	-
3.5% US dollar bond due 2013	**801**	793	778
1.75% US dollar bond due 2013	**653**	651	634
Floating rate US dollar bond due 2012	**64**	-	-
4.875% sterling bond due 2012	**999**	998	998
2% US dollar bond due 2012	**641**	648	624
0.54% US dollar bond due 2012	**64**	-	62
4.375% sterling bond due 2011	**-**	425	-
5.25% US dollar bond due 2011	**-**	655	627
3% US dollar bond due 2011	**-**	636	-
	25,846	23,455	24,433

*Amounts are shown net of unamortised discount and fees.

7. Bank loans and overdrafts (continued)

Bank loans and overdrafts are analysed as follows:

	Unaudited 30 September 2011 £m	Unaudited 30 September 2010 £m	Audited 31 March 2011 £m
Index-linked European Investment Bank due 2037	**417**	396	402
HSBC Bank due 2019 repayable by instalments	**209**	208	208
Barclays Bank due 2017 repayable by instalments	**47**	50	47
Royal Bank of Scotland due 2017 repayable by instalments	**69**	69	69
5.57% European Investment Bank due 2013	**201**	203	202
5.77% European Investment Bank due 2012	**302**	304	303
6.42% European Investment Bank due 2011	**-**	100	-
	1,245	1,330	1,231

8. Notes to the cash flow statement

	Unaudited six months ended 30 September 2011 £m	Unaudited six months ended 30 September 2010 £m	Audited year ended 31 March 2011 £m
Operating profit	**1,230**	1,130	2,038
Adjustments for:			
Depreciation of the railway network	**681**	626	1,271
Amortisation of capital grants	**(31)**	(32)	(64)
Amortisation of intangible assets	**1**	4	1
Increase/(decrease) in provisions	**4**	(21)	(39)
Operating cash flows before movements in working capital	**1,885**	1,707	3,207
(Increase)/decrease in inventories	**(26)**	12	24
Decrease in receivables	**53**	142	52
(Increase)/decrease in payables	**(109)**	(10)	139
Cash generated from operations	**1,803**	1,851	3,422
Income taxes received	**1**	-	-
Interest paid	**(267)**	(257)	(936)
Net cash generated from operating activities	**1,537**	1,594	2,486

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 2011 £m	Cash flows £m	Non cash movements £m	Capital accretion £m	Amortisation of discount £m	Fair value remeasure-ments £m	Foreign exchange differences £m	At 30 September 2011 £m
Cash and cash equivalents*	**612**	885	-	-	-	-	-	**1,497**
Borrowings due within one year	**(2,317)**	328	(208)	-	-	(4)	(18)	**(2,219)**
Borrowings due after one year	**(23,349)**	(1,467)	212	(329)	(2)	(82)	(4)	**(25,021)**
Obligations under finance leases	**(2)**	-	-	-	-	-	-	**(2)**
	(25,056)	**(254)**	**4**	**(329)**	**(2)**	**(86)**	**(22)**	**(25,745)**

* Excludes collateral of £133m (1 April 2011: £159m)

	At 1 October 2010 £m	Cash flows £m	Non cash movements £m	Capital accretion £m	Amortisation of discount £m	Fair value remeasur-ments £m	Foreign exchange differences £m	At 31 March 2011 £m
Cash and cash equivalents*	**807**	(195)	-	-	-	-	-	**612**
Borrowings due within one year	**(1,816)**	973	(1,672)	-	-	28	170	**(2,317)**
Borrowings due after one year	**(22,969)**	(1,716)	1,672	(390)	3	63	(12)	**(23,349)**
Obligations under finance leases	**(2)**	-	-	-	-	-	-	**(2)**
	(23,980)	**(938)**	**-**	**(390)**	**3**	**91**	**158**	**(25,056)**

* Excludes collateral of £159m (1 October 2010: £248m)

	At 1 April 2010 £m	Cash flows £m	Non cash movements £m	Capital accretion £m	Amortisation of discount £m	Fair value remeasur-ments £m	Foreign exchange differences £m	At 30 September 2010 £m
Cash and cash equivalents*	**1,767**	(960)	-	-	-	-	-	**807**
Borrowings due within one year	**(2,227)**	887	(687)	-	-	37	174	**(1,816)**
Borrowings due after one year	**(23,385)**	-	689	(267)	(3)	(31)	28	**(22,969)**
Obligations under finance leases	**(2)**	-	-	-	-	-	-	**(2)**
	(23,847)	**(73)**	**2**	**(267)**	**(3)**	**6**	**202**	**(23,980)**

* Excludes collateral of £248m (1 April 2010: £554m)

10. Contingent liabilities

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