Network Rail: full-year results 2013/14

Record investment in Britain's railways as Network Rail publishes its full-year results
12 June 2014

Almost £7bn was invested in improving and expanding Britain's rail network over the last 12 months, Network Rail revealed today in its full-year results for the 2013/14 financial year.

The record investment, which equates to almost £20m a day, provided new stations, new platforms, new lifts, new information systems, new concourses, new footbridges and new track to build a bigger, better railway.

Over the same 12-month period, the number of people travelling by rail grew by 86m, meaning passenger numbers have now doubled since 1995* with a further 30% growth predicted over the next ten years.

Mark Carne, chief executive, said: "We are in the middle of a rail renaissance, with record levels of passenger numbers and record levels of investment. This flourishing sector is investing heavily to improve the railway for today and for tomorrow."

Over the year, 90% of train services ran to time, 2.5 percentage points below the regulatory target. While some of this shortfall was caused by congestion as the railway witnessed growth of 5.7% in passenger journeys during the year, extreme weather and slower improvements in asset reliability also played a part.

Mr Carne continued: "With a million more trains on the network than 10 years ago, there are inevitable challenges - we are determined to do more to improve train reliability in the face of these challenges. We will increase the reliability of the network and make it more resilient to climate change. Continued investment in our railway will also be key if we are to grow our economy and deliver a better, improving, expanding rail network for millions of daily users."

Financial highlights

- Capital expenditure was £6,873m (2012/13: £5,050m) contributing to an increased asset value of £49,833m (£46,411m last year)
- Revenue was £6,333m (£6,197m in 2012/13)
- Profit after tax was £1,256m (up 86%** from £677m) with all profits reinvested
- Operating profit was £2,001m (£2,207m last year)
- Net debt at year end was £32,987m (£30,358m) with a gearing ratio of 65%, comfortably within the regulator's 75% limit

Patrick Butcher, group finance director, said: "The last year has been one of operational and financial challenges. We have been disappointed with train performance but celebrate continued strong growth, savings made, swiftly repairing the railway following extreme weather and hundreds of projects completed to improve and expand the railway.

"Our determination cannot waver over the coming years as we look to restore train punctuality to record high levels and wisely invest £38bn to improve and expand our railway for passengers and businesses across Britain."

Safety

- Britain's railway has one the best passenger safety performances in Europe
- Level crossing risk has been reduced by 31% and 804 level crossings have been closed over the last four years
- A further £100m has been earmarked over the coming years to continue the closure programme and make further safety improvements at crossings

Performance results

- In 2013/14, 90% of passenger trains ran on time, down on 90.9% last year
- Over the last ten years Network Rail has added over a million more train services a year, increased passenger journeys by half a billion and doubled the number of passengers arriving on time
- Passenger growth is running at double the rate forecast in 2009, with a 5.7% increase to 1,587m during the year

Investment highlights

Network Rail is managing many vital enhancement projects to add capacity to the railway and drive economic growth. Some highlights include:

- New, bigger, better facilities have been delivered at King's Cross by its £550m renovation and rebuilding providing a magnificent gateway to the north
- Opening of the new concourse at Reading station as part of the on-going £850m project to unblock one of Britain's worst railway bottlenecks
- The continuing work to connect towns of the Scottish Borders to Edinburgh with the building of 30 miles of new railway - the £300m Borders Railway project
- A more reliable and affordable railway for the people of Manchester, Liverpool and the North West through the £400m project to electrify railway in the region
- Many freight projects were completed to improve capacity, speed and reliability of services including the completion of new chords (small curves of railway) at Ipswich and Doncaster; container gauge enhancement from Birmingham to Doncaster and stretches of the East Coast Main Line; and capacity enhancements from Felixstowe to the Midlands
- During the year we also acquired some 100 freight sites around the country for £189m that will generate valuable revenue and enable us to more easily respond to growth and demand in this sector

As well as these significant milestones, over 5,000 projects have been completed over the course of the last five years (control period 4 – CP4 – 1 April 2009 to 31 March 2014). These smaller, but just as important projects, aimed at making incremental improvements to the railway for the benefit of passengers, have seen:

- Over 2,000 miles of track renewed
- Improvements at over 500 stations across the country
- Almost 200 lifts installed at stations
- Over 140 platforms lengthened across London and the South East

Notes to editors:

- *The Office of Rail Regulation issued a rail statistics bulleting on 5 June detailing that 1,587m passenger journeys were made in 2013/14, up 5.7% on previous year. The equivalent number for 1994/5 was 761m
- ** The increase in profit after tax is as a result of accounting gains on hedging instruments of £304m (2012/13: £43m loss) and a tax credit of £221m (2012/13: charge of £70m). All hedging is done to manage the impact of potential volatility from interest rate and currency fluctuation

Financial highlights

For the year ended 31 March 2014

	2014 £m	2013 restated* £m
Revenue	**6,333**	**6,197**
Operating profit	**2,001**	**2,207**
Profit before tax	**1,035**	**747**
Profit after tax	**1,256**	**677**
Net cash generated from operating activities	**2,698**	**2,703**
Net debt	**(32,987)**	**(30,358)**
Net assets	**8,182**	**8,013**
Railway network fixed assets	**49,833**	**46,411**
Investment property	**856**	**751**
Capital expenditure	**6,873**	**5,050**

* The comparatives have been restated for adoption of IAS 19 (Revised) ‘Employee Benefits’

Income statement
for the year ended 31 March 2014

	Notes	Results pre debt and derivative revaluations 2014 Group £m	Debt and derivative revaluations 2014 Group £m	2014 Group £m	2013 restated* Group £m
Revenue	2	**6,333**	**-**	**6,333**	6,197
Net operating costs	3	**(4,332)**	**-**	**(4,332)**	(3,990)
Operating profit		**2,001**	**-**	**2,001**	2,207
Property revaluation movements and profits on disposal		**96**	**-**	**96**	(3)
Total profits from operations	4	**2,097**	**-**	**2,097**	2,204
Investment revenue		**20**	**-**	**20**	19
Other gains and losses		**-**	**304**	**304**	(43)
Finance costs		**(1,386)**	**-**	**(1,386)**	(1,433)
Profit before tax		**731**	**304**	**1,035**	747
Tax	5	**282**	**(61)**	**221**	(70)
Profit after tax for the year		**1,013**	**243**	**1,256**	677

* The comparatives have been restated for adoption of IAS 19 (Revised) 'Employee Benefits'

Statement of other comprehensive income
for the year ended 31 March 2014

	2014 Group £m	2013 Group restated* £m
Profit for the year	**1,256**	677
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss		
Loss on revaluation of the railway network	**(1,813)**	(352)
Actuarial gain/loss on defined benefit pension schemes	**140**	(550)
Tax relating to components of other comprehensive income	**320**	268
Total items that will not be reclassified to profit or loss	**(1,353)**	(634)
Items that may be reclassified to profit or loss		
Gain on movement in fair value of cash flow hedge derivatives	**172**	71
Reclassification of balances in the hedging reserve to the income statement	**218**	18
Tax relating to components of other comprehensive income	**(124)**	(36)

Total items that may be reclassified to profit or loss	**266**	53
Other comprehensive expense for the year	**(1,087)**	(581)
Total comprehensive income for the year	**169**	96

* The comparatives have been restated for adoption of IAS 19 (Revised) 'Employee Benefits'

Statement of changes in equity
for the year ended 31 March 2014

Group	Revaluation reserve £m	Other reserve* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2012	3,123	249	(241)	4,786	7,917
Profit for the year - restated	-	-	-	677	677
Other comprehensive income/(loss) for the year:					
Impact of change in tax rate	55	-	(10)	(6)	39
Revaluation of the railway network	(352)	-	-	-	(352)
Transfer of deemed cost depreciation from revaluation reserve	(27)	-	-	27	-
Decrease in deferred tax liability on the railway network	91	-	-	(6)	85
Actuarial loss on defined benefit pension schemes - restated	-	-	-	(550)	(550)
Deferred tax on actuarial loss - restated	-	-	-	134	134
Increase in fair value of hedging derivatives	-	-	71	-	71
Deferred tax on all hedging reserve movements/retained earnings	-	-	(26)	-	(26)
Reclassification of balances in hedging reserve to the income statement	-	-	18	-	18
Total comprehensive income/(loss) for the year:	**(233)**	**-**	**53**	**276**	**96**
Balance at 31 March 2013	**2,890**	**249**	**(188)**	**5,062**	**8,013**
Profit for the year	**-**	**-**	**-**	**1,256**	**1,256**
Other comprehensive income/(loss) for the year:					
Impact of change in tax rate	**159**	**-**	**(9)**	**(17)**	**133**
Revaluation of the railway network	**(1,813)**	**-**	**-**	**-**	**(1,813)**
Transfer of deemed cost depreciation from revaluation reserve	**(84)**	**-**	**-**	**84**	**-**
Decrease in deferred tax liability on the railway network	**228**	**-**	**-**	**(17)**	**211**
Actuarial loss on defined benefit pension schemes	**-**	**-**	**-**	**140**	**140**
Deferred tax on actuarial loss	**-**	**-**	**-**	**(33)**	**(33)**
Increase in fair value of hedging derivatives	**-**	**-**	**172**	**-**	**172**
Deferred tax on all hedging reserve movements/retained earnings	**-**	**-**	**(115)**	**-**	**(115)**

Reclassification of balances in hedging reserve to the income statement	**-**	**-**	**218**	**-**	**218**
Total comprehensive income/(loss) for the year:	**(1,510)**	**-**	**266**	**1,413**	**169**
Balance at 31 March 2014	**1,380**	**249**	**78**	**6,475**	**8,182**

*Other reserves of £249m (2013: £249m) include the vesting reserve on privatisation.

Balance sheet

at 31 March 2014

	Note	**2014 Group £m**	2013 Group £m
Assets			
Non-current assets			
Intangible assets		**68**	69
Property, plant and equipment - the railway network	6	**49,833**	46,411
Investment property		**856**	751
Derivative financial instruments		**637**	697
Finance lease receivables		**1**	3
Other receivables		**135**	-
Interest in joint ventures		**27**	12
		51,557	47,943
Current assets			
Inventories		**173**	157
Finance lease receivables		**2**	2
Trade and other receivables		**915**	776
Current tax assets		**4**	9
Derivative financial instruments		**11**	256
Cash and cash equivalents		**1,253**	3,506
		2,358	4,706
Total assets		**53,915**	52,649
Liabilities			
Current liabilities			
Trade and other payables		**(3,886)**	(3,394)
Borrowings	8	**(2,707)**	(4,120)
Derivative financial instruments		**(277)**	(23)
Provisions		**(143)**	(8)
		(7,013)	(7,545)
Net current liabilities		**(4,655)**	(2,839)
Non-current liabilities			
Borrowings	8	**(31,308)**	(29,354)
Derivative financial instruments		**(387)**	(608)
Other payables		**(3,297)**	(2,953)
Retirement benefit obligation		**(1,237)**	(1,267)
Deferred tax liabilities		**(2,491)**	(2,909)
		(38,720)	(37,091)
Total liabilities		**(45,733)**	(44,636)
Net assets		**8,182**	8,013
Equity			
Revaluation reserve		**1,380**	2,890

Other reserve	**249**	249
Hedging reserve	**78**	(188)
Retained earnings	**6,475**	5,062
Total equity	**8,182**	8,013

Statement of cash flows
for the year ended 31 March 2014

	Note	2014 Group £m	2013 Group £m
Cash flows from operating activities			
Cash generated from operations	7	**3,771**	3,749
Interest paid		**(1,077)**	(1,038)
Income tax received/(paid)		**4**	(8)
Net cash generated from operating activities		**2,698**	2,703
Investing activities			
Interest received		**20**	20
Purchases of property, plant and equipment		**(6,263)**	(4,693)
Proceeds on disposal of property		**41**	39
Capital grants received		**227**	137
Investment in joint ventures		**(15)**	(6)
Capital element of finance lease receipts		**2**	2
Net cash used in investing activities		**(5,988)**	(4,501)
Financing activities			
Repayments of borrowings		**(3,975)**	(1,203)
Repayments of obligations under finance leases		**-**	(1)
New loans raised		**5,104**	4,751
Movement in collateral obligation owed to counterparties		**(143)**	323
Cash flow on settlement of non-hedge accounted derivatives		**-**	(452)
Net cash generated from financing activities		**986**	3,418
Net (decrease)/ increase in cash and cash equivalents		**(2,304)**	1,620
Cash and cash equivalents at beginning of the year		**3,506**	1,886
Cash and cash equivalents at end of the year		**1,202**	3,506

	2014	2013
Cash and cash equivalents comprise:		
Short term bank deposits, commercial paper and money market deposits	**1,253**	3,506
Bank overdrafts	**(51)**	-
	1,202	3,506

Notes to the financial statements
for the year ended 31 March 2014

1. General information

The financial information set out in this preliminary announcement does not constitute the group's statutory accounts for the years ended 31 March 2014 or 31 March 2013, but is derived from those accounts. Whilst the financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, this announcement itself does not contain sufficient information to comply with IFRSs. Statutory accounts for the year ended 31 March 2013 have been delivered to the Registrar of Companies and those for the year ended 31 March 2014 will be delivered following the group's annual general meeting. The auditors have reported on those accounts; their reports were unqualified.

The following accounting standards and amendments to accounting standards have been adopted by the group for the first time for the financial year beginning on 1 April 2013 and have an impact on the group:

(i) The June 2011 amendment to IAS 1 *Financial Statement Presentation*, whereby other comprehensive income or loss is now grouped on the basis of whether such income or loss is potentially reclassifiable to profit or loss.
(ii) IAS 19 (as revised in June 2011) *Employee Benefits*.
(iii) The amendment to IFRS 7 *Financial Instruments*: Disclosures on financial asset and financial liability offsetting.
(iv) IFRS 13 *Fair Value Measurement*. This standard provides a single source of fair value measurement and disclosure requirements for use across IFRS. The implementation of this standard did not lead to a significant change in the fair value measurement applied by the group.

The preliminary announcement was approved by the board on 11 June 2014.

Going concern

The group has considerable financial resources together with long term contracts with a number of customers and suppliers. As a consequence, the directors believe that the group is well placed to manage its business risks.

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

2. Revenue

	2014 Group £m	2013 Group £m
Franchised track access and grant income	**6,020**	5,893
Freight revenue	**52**	48
Property rental income	**238**	233
Other income	**23**	23
Revenue for the year	**6,333**	6,197

The net effect of the performance regimes on the results of the group was a net loss of £218m (2013: net loss of £109m). Rebates of £110m and £32m were paid to the Department for Transport and Transport Scotland respectively.

3. Net operating costs

	2014 **Group** **£m**	2013 restated* Group £m
Employee costs	**1,910**	1,789
Own costs capitalised	**(739)**	(653)
Other external charges (including infrastructure maintenance costs)	**1,873**	1,686
Other operating income and recoveries	**(233)**	(242)
Net operating costs before depreciation	**2,811**	2,580
Depreciation and other amounts written off non-current assets	**1,603**	1,491
Capital grants amortised	**(82)**	(81)
Net operating costs	**4,332**	3,990

* The comparatives have been restated for adoption of IAS 19 (Revised) ‘Employee Benefits’

Other external charges include a financial penalty of £77m arising from an order made by the ORR in respect of the 2013/14 long distance punctuality target.

4. Profit from operations

Profit from operations is stated after charging/(crediting):

	2014 Group £m	2013 Group £m
Research and development costs expensed	**1**	1
Amortisation of intangible fixed assets	**1**	1
Profit on sale of properties	**(37)**	(36)
(Increase)/decrease in the fair value of investment properties	**(59)**	39
Cost of inventories recognised as an expense	**205**	124
Write downs of inventories recognised as an expense	**3**	2
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	**0.5**	0.4
Fees payable to the company's auditors for audit related services		
- The audit of the company's subsidiaries	**0.1**	0.1
- Regulatory accounts audit and interim review	**0.1**	0.1
	0.7	0.6
Fees payable to the company's auditors for other non-audit related services		
- Consulting work in respect of the ORBIS project	**-**	0.4
Total non-audit fees	**-**	0.4
Total amounts payable to auditors	**0.7**	1.0

5. Tax

	2014 Group £m	2013 Group restated* £m
Current tax:		
UK Corporation tax at 23 per cent (2013: 24 per cent):		
Corporation tax charge	**4**	11
Less advance corporation tax set-off	**(3)**	(4)
Corporation tax liability	**1**	7
Adjustments in respect of prior years	**-**	-
Total current tax	**1**	7
Deferred tax:		
Deferred tax at 20 per cent (2013: 23 per cent):		
Current year charge	**233**	146
Effect of rate change	**(220)**	(83)
Adjustments in respect of prior years	**(235)**	-
Total deferred tax	**(222)**	63
Total tax	**(221)**	70

* The comparatives have been restated for adoption of IAS 19 (Revised) 'Employee Benefits'

6. Property, plant and equipment – the railway network

	Group £m
Valuation	
At 1 April 2012	43,112
Additions	5,050
Transfer from investment property	92
Depreciation charge for the year	(1,491)
Revaluation in the year	(352)
At 31 March 2013	**46,411**
Additions	6,873
Transfer to investment property	(35)
Depreciation charge for the year	(1,603)
Revaluation in the year	(1,813)
At 31 March 2014	**49,833**

Given the interdependency of the assets comprising the railway network, the group has concluded that the railway network is a single class of asset. The railway network is carried at its fair value, which is measured as the estimated future cash flows that are expected to be generated in perpetuity, discounted at a pre-tax rate of return, as set by the independent rail regulator, (the ORR), in its 'Final determination for Network Rail's outputs and funding 2014-19'. This rate reflects the risks and opportunities that exist in the regulated market for railway infrastructure assets and equates to the cost of capital for this market.

As there is no active market in railway infrastructure assets, the group has derived the fair value of the railway network using an income approach. The income approach assesses the discounted future cash flows that would be generated by the railway network using a market rate of return. This valuation is carried out twice a year and revaluation gains and losses are reflected in other comprehensive income.

The income approach to determining the fair value of the railway network involves using the RAB, which is a proxy for a discounted cash flow calculation, adjusted for forecast performance variations.

The depreciation charge for the 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 useful economic life of the railway network was calculated using the engineering assessment of serviceable economic lives of the major categories of asset that comprise the railway network. The estimated weighted average remaining useful economic life of the network is currently 30 years (2013: 30 years).

As at 31 March 2014 the comparable valuation of the railway network according to the historical cost convention is £47,468m (2013: £42,149m).

At 31 March 2014, the group had entered into contractual commitments in respect of capital expenditure amounting to £5,693m (2013: £1,356m).

7. Notes to the statement of cash flows

	2014 Group £m	2013 Group restated* £m
Profit before tax	**1,035**	747
Adjustments for:		
Property revaluation movements and profits on disposal	**(96)**	3
Fair value (gain)/loss on derivatives and debt	**(304)**	43
Net interest expense	**1,366**	1,414
Depreciation of the railway network	**1,603**	1,491
Amortisation of capital grants	**(82)**	(81)
Amortisation of intangible assets	**1**	1
Movement in retirement benefit obligations	**56**	24
Increase/(decrease) in provisions	**135**	(4)
Operating cash flows before movements in working capital	**3,714**	3,638
Increase in inventories	**(16)**	(32)
Increase in receivables	**(311)**	(106)
Increase in payables	**384**	249
Cash generated from operations	**3,771**	3,749

* The comparatives have been restated for adoption of IAS 19 (Revised) ‘Employee Benefits’

Cash and cash equivalents

Cash and cash equivalents (which are represented as a single class of assets on the face of the balance sheet) comprise cash at bank, collateral, commercial paper and money market deposit investments, all of which are on call with the exception of £163m of short-term deposits with an average term of 22 days (2013: £282m 29 days) from the balance sheet date. Cash and money market deposits had an average maturity of ten days (2013: five days) from the balance sheet date.

8. Borrowings

	2014 Group £m	2013 Group £m
Net borrowings by instrument		
Cash and cash equivalents*	**1,253**	3,506
Collateral placed with counterparties	**36**	14
Collateral received from counterparties	**(261)**	(404)
Commercial paper	**(255)**	(30)
Overdrafts	**(51)**	-
Bank loans	**(469)**	(666)
Bonds issued under the Debt Issuance Programme (less unamortised premium, discount and fees)	**(33,240)**	(32,778)
	(32,987)	(30,358)
Movement in net borrowings		
At the beginning of the period	**(30,358)**	(27,282)
(Decrease)/increase in cash and cash equivalents	**(2,253)**	1,620
Increase in overdrafts	**(51)**	-
Proceeds from borrowings	**(5,104)**	(4,751)
Repayments of borrowings	**3,975**	1,203
Repayments of obligation under finance lease	**-**	1
Capital accretion	**(298)**	(485)
Exchange differences	**304**	(73)
Movement in collateral placed with counterparties	**22**	14
Movement in collateral received from counterparties	**143**	(323)
Fair value and other movements	**633**	(282)
At the end of the period	**(32,987)**	(30,358)
Net borrowings are reconciled to the balance sheet as set out below:		
Cash and cash equivalents*	**1,253**	3,506
Collateral placed with counterparties (included in trade and other receivables)	**36**	14
Collateral received from counterparties (included in trade and other payables)	**(261)**	(404)
Borrowings included in current liabilities	**(2,707)**	(4,120)
Borrowings included in non-current liabilities	**(31,308)**	(29,354)
	(32,987)	(30,358)

* Includes collateral received from derivative counterparties of £261m (2013: £404m)