

Financial highlights

For the year ended 31 March 2013

	2013 £m	2012 £m
Revenue	6,197	6,004
Operating profit	2,217	2,347
Profit before tax	775	475
Profit after tax	699	761
Net cash generated from operating activities	2,703	2,692
Net debt	(30,358)	(27,282)
Net assets	8,013	7,917
Railway network fixed assets	46,411	43,112
Investment property	751	878
Capital expenditure	5,050	4,600

Income statement

for the year ended 31 March 2013

	Notes	Results pre debt and derivative revaluations 2013 Group £m	Debt and derivative revaluations 2013 Group £m	2013 Group £m	2012 Group £m
Revenue	2	6,197	-	6,197	6,004
Net operating costs	3	(3,980)	-	(3,980)	(3,657)
Operating profit		2,217	-	2,217	2,347
Property revaluation movements and profits on disposal		(3)	-	(3)	19
Total profits from operations	4	2,214	-	2,214	2,366
Investment revenue		19	-	19	45
Other gains and losses		-	(43)	(43)	(567)
Finance costs		(1,415)	-	(1,415)	(1,369)
Profit before tax		818	(43)	775	475
Tax	5	(86)	10	(76)	286
Profit for the year		732	(33)	699	761

Statement of other comprehensive income

for the year ended 31 March 2013

	2013 Group £m	2012 Group £m
Profit for the year	699	761
(Loss)/gain on revaluation of the railway network	(352)	313
Gain/(loss) on movement in fair value of hedging derivatives	71	(93)
Reclassification of balances in hedging reserve to the income statement	18	67
	89	(26)
Actuarial loss on defined benefit pension schemes	(578)	(245)
Tax relating to components of other comprehensive income	238	29
Other comprehensive (expense)/income for the year	(603)	71
Total comprehensive income for the year	96	832

Statement of changes in equity

for the year ended 31 March 2013

Group	Revaluation reserve £m	Other reserve* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2011	2,957	249	(165)	4,044	7,085
Profit for the year	-	-	-	761	761
Other comprehensive income					
Impact of change in tax rate	107	-	(49)	(12)	46
Revaluation of the railway network	313	-	-	-	313
Transfer of deemed cost depreciation from revaluation reserve	(235)	-	-	235	-
Increase in deferred tax liability on the railway network	(19)	-	-	(56)	(75)
Actuarial loss on defined benefit pension schemes	-	-	-	(245)	(245)
Deferred tax on actuarial loss	-	-	-	59	59
Decrease in fair value of hedging derivatives	-	-	(93)	-	(93)
Deferred tax on all hedging reserve movements/retained earnings	-	-	(1)	-	(1)
Reclassification of balances in hedging reserve to the income statement	-	-	67	-	67
Total comprehensive income	166	-	(76)	742	832
Balance at 31 March 2012	3,123	249	(241)	4,786	7,917
Profit for the year	-	-	-	699	699
Other comprehensive income					
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	-	-	-	(578)	(578)
Deferred tax on actuarial loss	-	-	-	140	140
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	(233)	-	53	276	96
Balance at 31 March 2013	2,890	249	(188)	5,062	8,013

*Other reserves of £249m (2012: £249m) include the vesting reserve on privatisation.

Balance sheet

at 31 March 2013

	Note	2013 Group £m	2012 Group £m
Assets			
Non-current assets			
Intangible assets		69	70
Property, plant and equipment - the railway network	6	46,411	43,112
Investment property		751	878
Derivative financial instruments		697	672
Finance lease receivables		3	5
Interest in joint ventures		12	6
Total non-current financial assets		712	683
		47,943	44,743
Current assets			
Inventories		157	125
Finance lease receivables		2	1
Trade and other receivables		776	672
Current tax assets		9	8
Derivative financial instruments		256	1
Cash and cash equivalents		3,506	1,886
		4,706	2,693
Total assets		52,649	47,436
Current liabilities			
Trade and other payables		(3,394)	(2,704)
Borrowings		(4,120)	(1,157)
Derivative financial instruments		(23)	(411)
Provisions		(8)	(12)
Obligations under finance leases		-	(1)
		(7,545)	(4,285)
Net current liabilities		(2,839)	(1,592)
Non-current liabilities			
Borrowings		(29,354)	(27,929)
Derivative financial instruments		(608)	(797)
Other payables		(2,953)	(2,769)
Retirement benefit obligation		(1,267)	(661)
Deferred tax liabilities		(2,909)	(3,078)
		(37,091)	(35,234)
Total liabilities		(44,636)	(39,519)
Net assets		8,013	7,917
Equity			
Revaluation reserve		2,890	3,123
Other reserve		249	249
Hedging reserve		(188)	(241)
Retained earnings		5,062	4,786
Total equity		8,013	7,917

Statement of cash flows

for the year ended 31 March 2013

	Note	2013 Group £m	2012 Group £m
Cash flows from operating activities			
Cash generated from operations	7	3,749	3,662
Interest paid		(1,038)	(970)
Income tax paid		(8)	-
Net cash generated from operating activities		2,703	2,692
Investing activities			
Interest received		20	40
Purchases of property, plant and equipment		(4,693)	(4,521)
Proceeds on disposal of property		39	29
Capital grants received		137	400
Investment in joint ventures		(6)	(1)
Capital element of finance lease receipts		2	1
Net cash used in investing activities		(4,501)	(4,052)
Financing activities			
Repayments of borrowings		(1,203)	(2,545)
Repayments of obligations under finance leases		(1)	(1)
New loans raised		4,751	5,489
Net collateral received from/(repaid to) counterparties		323	(78)
Cash flow on settlement of non-hedge accounted derivatives		(452)	(390)
Net cash generated from financing activities		3,418	2,475
Net increase in cash and cash equivalents		1,620	1,115
Cash and cash equivalents at beginning of the year		1,886	771
Cash and cash equivalents at end of the year		3,506	1,886

Notes to the financial statements

for the year ended 31 March 2013

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 2013 or 31 March 2012, but is derived from those accounts. Whilst the financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 2012 have been delivered to the Registrar of Companies and those for the year ended 31 March 2013 will be delivered following the group's annual general meeting. The auditors have reported on those accounts; their reports were unqualified. The preliminary announcement has been prepared on the basis of the accounting policies as stated in the previous year's financial statements as no new Standards, Amendments or Interpretations that became effective in the financial year had an impact on the group's results. The preliminary announcement was approved by the board on 5 June 2013.

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

	2013	2012
	Group	Group
	£m	£m
Franchised track access and grant income	5,893	5,706
Freight revenue	48	51
Property rental income	233	215
Other income	23	32
Revenue for the year	6,197	6,004

The net effect of the performance regimes on the results of the group was a net loss of £109m (2012: net income £6m).

3. Net operating costs

	2013 Group £m	2012 Group £m
Employee costs	1,779	1,679
Own costs capitalised	(653)	(684)
Other external charges (including infrastructure maintenance costs)	1,686	1,594
Other operating income and recoveries	(242)	(242)
Net operating costs before depreciation	2,570	2,347
Depreciation	1,491	1,378
Capital grants amortised	(81)	(68)
Net operating costs	3,980	3,657

4. Profit from operations

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

	2013 Group £m	2012 Group £m
Research and development costs expensed	1	2
Amortisation of intangible fixed assets	1	1
Profit on sale of properties	(36)	(27)
Decrease in the fair value of investment properties	39	8
Cost of inventories recognised as an expense	124	165
Write downs of inventories recognised as an expense	2	1
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.4	0.3
Fees payable to the company's auditors for other audit related services		
- The audit of the company's subsidiaries pursuant to legislation	0.1	0.1
- Regulatory accounts audit and interim review	0.1	0.1
	0.6	0.5
Fees payable to the company's auditors for other non-audit related services		
- Consulting work in respect of the Orbis project	0.4	0.1
Total non-audit fees	0.4	0.1
Total amounts payable to auditors	1.0	0.6

5. Tax

	2013 Group £m	2012 Group £m
Current tax:		
UK Corporation tax at 24 per cent (2012: 26 per cent):		
Corporation tax charge	11	12
Less advance corporation tax (ACT) set-off	(4)	(5)
Corporation tax liability	7	7
Adjustments in respect of prior years	-	(15)
Total current tax	7	(8)
Deferred tax:		
Deferred tax at 23 per cent (2012: 24 per cent):		
Current year charge	152	96
Effect of rate change	(83)	(168)
Adjustments in respect of prior years	-	(206)
Total deferred tax	69	(278)
Total tax	76	(286)

6. Property, plant and equipment – the railway network

	Group £m
Valuation	
At 1 April 2011	39,577
Additions	4,600
Depreciation charge for the year	(1,378)
Revaluation in the year	313
At 31 March 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

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 the group's pre-tax rate of return, as set by the independent rail regulator, the Office of Rail Regulation (ORR) in its Access Charges Review. 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 are generated by the railway network. This valuation is carried out annually and revaluation gains and losses are reflected in other comprehensive income.

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 (2012: 30 years).

As at 31 March 2013 the comparable valuation of the railway network according to the historical cost convention is £42,149m (2012: £38,372m).

At 31 March 2013, the group had entered into contractual commitments in respect of capital expenditure amounting to £1,356m (2012: £1,706m).

7. Notes to the statement of cash flows

	2013 Group £m	2012 Group £m
Profit before tax	775	475
Adjustments for:		
Property revaluation movements and profits on disposal	3	(19)
Fair value loss on derivatives and debt	43	567
Net interest expense	1,396	1,324
Depreciation of the railway network	1,491	1,378
Amortisation of capital grants	(81)	(68)
Amortisation of intangible assets	1	1
Movement in retirement benefit obligations	14	(72)
Decrease in provisions	(4)	(5)
Operating cash flows before movements in working capital	3,638	3,581
Increase in inventories	(32)	(17)
(Increase)/decrease in receivables	(106)	48
Increase in payables	249	50
Cash generated from operations	3,749	3,662

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 £282m of short term deposits with an average term of 29 days (2012: £20m two days) from the balance sheet date. Cash and money market deposits had an average maturity of 5 days (2012: one day) from the balance sheet date.

8. Net borrowings

	2013 Group £m	2012 Group £m
Net borrowings by instrument		
Cash and cash equivalents*	3,506	1,886
Collateral placed with counterparties	14	-
Collateral received from counterparties	(404)	(81)
Commercial paper	(30)	-
Bank loans	(666)	(967)
Bonds issued under the Debt Issuance Programme (less unamortised premium, discount and fees)	(32,778)	(28,119)
Obligations under finance leases	-	(1)
	(30,358)	(27,282)
Movement in net borrowings		
At the beginning of the period	(27,282)	(25,056)
Increase in cash and cash equivalents	1,620	1,115
Proceeds from borrowings	(4,751)	(5,489)
Repayments of borrowings	1,203	2,545
Repayments of obligation under finance lease	1	1
Capital accretion	(485)	(521)
Exchange differences	(73)	(30)
Movement in collateral placed with counterparties	14	-
Movement in collateral received from counterparties	(323)	78
Fair value and other movements	(282)	75
At the end of the period	(30,358)	(27,282)
Net borrowings are reconciled to the balance sheet as set out below:		
Cash and cash equivalents*	3,506	1,886
Collateral placed with counterparties (included in trade and other receivables)	14	-
Collateral received from counterparties (included in trade and other payables)	(404)	(81)
Borrowings included in current liabilities	(4,120)	(1,157)
Borrowings included in non-current liabilities	(29,354)	(27,929)
Obligations under finance leases	-	(1)
	(30,358)	(27,282)

* includes collateral received from derivative counterparties of £404m (2012: £81m)

The above results represents the consolidated performance of Network Rail Limited. Network Rail Limited is the ultimate parent company of the Network Rail group.