

Financial highlights

For the year ended 31 March 2015

	2015 £m	2014 £m
Revenue	6,087	6,333
Operating profit	1,735	2,001
Profit before tax	506	1,035
Net cash generated from operating activities	2,310	2,720
Net debt	(37,759)	(32,987)
Net assets	6,391	8,182
Railway network fixed assets	54,091	49,833
Investment property	982	856
Capital expenditure	6,474	6,873

Income statement

for the year ended 31 March 2015

	Notes	2015 Group £m	2014 Group £m
Revenue	2	6,087	6,333
Net operating costs	3	(4,352)	(4,332)
Operating profit		1,735	2,001
Property revaluation movements and profits on disposal		140	96
Total profits from operations	4	1,875	2,097
Finance income		10	20
Other gains and losses		(41)	304
Finance costs		(1,338)	(1,386)
Profit before tax		506	1,035
Tax*	5	(882)	221
(Loss)/profit after tax for the year		(376)	1,256

*The tax charge in the year includes the derecognition of previously recognised deferred tax assets of £597m. The prior year tax credit includes a £235m credit relating to "prior year adjustments" and £220m credit for the enactment of corporation tax rate reduction.

Statement of other comprehensive income

for the year ended 31 March 2015

	2015 Group £m	2014 Group £m
(Loss)/profit for the year	(376)	1,256
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss		
Loss on revaluation of the railway network	(488)	(1,813)
Actuarial (loss)/gain on defined benefit pension schemes	(159)	140
Tax relating to components of other comprehensive income	122	320
Total items that will not be reclassified to profit or loss	(525)	(1,353)
Items that may be reclassified to profit or loss		
(Loss)/gain on movement in fair value of cash flow hedge derivatives	(982)	172
Reclassification of balances in the hedging reserve to the income statement	73	218
Tax relating to components of other comprehensive income	19	(124)
Total items that may be reclassified to profit or loss	(890)	266
Other comprehensive expense for the year	(1,415)	(1,087)
Total comprehensive (expense)/income for the year	(1,791)	169

Statement of changes in equity

for the year ended 31 March 2015

Group	Revaluation reserve £m	Other reserve* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2013	2,890	249	(188)	5,062	8,013
Profit for the year	-	-	-	1,256	1,256
Other comprehensive income/(expense) 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 gain on defined benefit pension schemes	-	-	-	140	140
Deferred tax on actuarial gain	-	-	-	(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 (expense)/income for the year:	(1,510)	-	266	1,413	169
Balance at 31 March 2014	1,380	249	78	6,475	8,182
Loss for the year	-	-	-	(376)	(376)
Other comprehensive income/(loss) for the year:					
Revaluation of the railway network	(488)	-	-	-	(488)
Transfer of deemed cost depreciation from revaluation reserve	(42)	-	-	42	-
Decrease in deferred tax liability on the railway network	98	-	-	(9)	89
Actuarial loss on defined benefit pension schemes	-	-	-	(159)	(159)
Deferred tax on actuarial loss	-	-	-	33	33
Decrease in fair value of hedging derivatives	-	-	(982)	-	(982)
Deferred tax on all hedging reserve movements/retained earnings	-	-	19	-	19
Reclassification of balances in hedging reserve to retained earnings	-	-	13	(13)	-
Reclassification of balances in hedging reserve to the income statement	-	-	73	-	73
Total comprehensive (expense)/income for the year:	(432)	-	(877)	(482)	(1,791)
Balance at 31 March 2015	948	249	(799)	5,993	6,391

*Other reserves of £249m (2014: £249m) include the vesting reserve on privatisation.

Balance sheet

at 31 March 2015

	Note	2015 Group £m	2014 Group £m
Assets			
Non-current assets			
Intangible assets		67	68
Property, plant and equipment - the railway network	6	54,091	49,833
Investment property		982	856
Derivative financial instruments		721	637
Finance lease receivables		-	1
Other receivables		109	135
Interest in joint ventures		42	27
		56,012	51,557
Current assets			
Inventories		198	173
Finance lease receivables		1	2
Trade and other receivables		1,475	915
Current tax assets		-	4
Derivative financial instruments		50	11
Cash and cash equivalents		313	1,253
		2,037	2,358
Total assets		58,049	53,915
Liabilities			
Current liabilities			
Trade and other payables		(3,151)	(3,886)
Current tax liabilities		(2)	-
Borrowings	8	(3,133)	(2,707)
Derivative financial instruments		(5)	(277)
Provisions		(50)	(143)
		(6,341)	(7,013)
Net current liabilities		(4,304)	(4,655)
Non-current liabilities			
Borrowings	8	(35,415)	(31,308)
Derivative financial instruments		(1,038)	(387)
Other payables		(4,129)	(3,297)
Retirement benefit obligation		(1,505)	(1,237)
Deferred tax liabilities		(3,230)	(2,491)
		(45,317)	(38,720)
Total liabilities		(51,658)	(45,733)
Net assets		6,391	8,182
Equity			
Revaluation reserve		948	1,380
Other reserve		249	249
Hedging reserve		(799)	78
Retained earnings		5,993	6,475
Total equity		6,391	8,182

Statement of cash flows
for the year ended 31 March 2015

	Note	2015 Group £m	2014 Group £m
Cash flows from operating activities			
Cash generated from operations	7	3,514	3,793
Interest paid		(1,208)	(1,077)
Income tax received		4	4
Net cash generated from operating activities		2,310	2,720
Investing activities			
Interest received		10	20
Purchases of property, plant and equipment		(6,745)	(6,263)
Proceeds on disposal of property		33	41
Capital grants received		503	227
Investment in joint ventures		(15)	(15)
Capital element of finance lease receipts		1	2
Net cash used in investing activities		(6,213)	(5,988)
Financing activities			
Repayments of borrowings		(2,738)	(3,975)
New loans raised		6,450	5,104
Increase in collateral posted		(690)	(22)
Decrease in collateral held		(11)	(143)
Cash flow on settlement of non-hedge accounted derivatives		3	-
Net cash generated from financing activities		3,014	964
Net (decrease)/ increase in cash and cash equivalents		(889)	(2,304)
Cash and cash equivalents at beginning of the year		1,202	3,506
Cash and cash equivalents at end of the year		313	1,202
Cash and cash equivalents comprise:			
Short term bank deposits, commercial paper and money market deposits		313	1,253
Bank overdrafts		-	(51)
		313	1,202

Notes to the financial statements

for the year ended 31 March 2015

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 2015 or 31 March 2014, 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 2014 have been delivered to the Registrar of Companies and those for the year ended 31 March 2015 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 2014 and do not have a material impact on the group:

- i. IFRS 11 'Joint Arrangements'
- ii. The amendment to IAS 32 on Financial instruments asset and liability offsetting.
- iii. The amendment to IAS 39 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting.

The preliminary announcement was approved by the board on 10 June 2015.

Reclassification of Network Rail

In December 2013, the Office for National Statistics announced the reclassification of Network Rail as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). The reclassification does not have any impact on the group's financial reporting requirements under IFRS.

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

	2015 Group £m	2014 Group £m
Franchised track access and grant income	5,729	6,020
Freight revenue	75	52
Property rental income	256	238
Other income	27	23
Revenue for the year	6,087	6,333

The effect of the performance regimes was a net loss of £109m (2014: net loss of £218m) which led to a reduction in revenue of the respective amount. In the year ended 31 March 2014 rebates of £110m and £32m were paid to the Department for Transport and Transport Scotland respectively. There were no rebates in the year ended 31 March 2015.

3. Net operating costs

	2015 Group £m	2014 Group £m
Employee costs	1,919	1,910
Own costs capitalised	(731)	(739)
Other external charges (including infrastructure maintenance costs)	1,857	1,873
Other operating income and recoveries	(342)	(233)
Net operating costs before depreciation	2,703	2,811
Depreciation and other amounts written off non-current assets	1,732	1,603
Capital grants amortised	(83)	(82)
Net operating costs	4,352	4,332

In the year ended 31 March 2014 other external charges include a provision for a financial penalty of £77m arising from an order made by the ORR in respect of the 2014 long distance punctuality target. In the year ended 31 March 2015 £24m of this provision was released.

4. Profit from operations

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

	2015 Group £m	2014 Group £m
Research and development costs expensed	1	1
Amortisation of intangible fixed assets	1	1
Profit on sale of properties	(32)	(37)
Increase in the fair value of investment properties	(108)	(59)
Cost of inventories recognised as an expense	205	205
Write downs of inventories recognised as an expense	1	3
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.5	0.5
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
Total amounts payable to auditors	0.7	0.7

In the financial years ended 31 March 2015 and 2014 there were no fees payable to the company's auditors in respect of non-audit related services.

5. Tax

	2015 Group £m	2014 Group £m
Current tax:		
UK Corporation tax at 21 per cent (2014: 23 per cent):		
Corporation tax charge	1	4
Less advance corporation tax set-off	-	(3)
Corporation tax liability	1	1
Adjustments in respect of prior years	1	-
Total current tax	2	1
Deferred tax:		
Deferred tax at 20 per cent (2014: 20 per cent):		
Current year charge	836	233
Effect of rate change	-	(220)
Adjustments in respect of prior years	44	(235)
Total deferred tax	880	(222)
Total tax charge/(credit)	882	(221)

Under IAS12 deferred tax assets can only be recognised where it is probable that taxable profits will be available against which the deferred tax asset can be utilised. In the year Network Rail has derecognised the deferred tax asset in respect of tax losses. The key change in the year has been the reclassification of Network Rail as a Central Government body. As a consequence there is increased uncertainty over the effect that this change may have on the regulatory determination of income in future control periods. This, when taken together with continued investment in the infrastructure, means that it is no longer considered probable that Network Rail will return to the level of taxable profits that would have allowed for the continued recognition of the deferred tax assets. Consequently, £597m carried forward tax losses and £267m current year tax losses have been derecognised.

6. Property, plant and equipment – the railway network

	Group £m
Valuation	
At 1 April 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
Additions	6,474
Transfer from investment property	4
Depreciation charge for the year	(1,732)
Revaluation in the year	(488)
At 31 March 2015	54,091

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 (2014: 30 years).

As at 31 March 2015 the comparable valuation of the railway network according to the historical cost convention is £52,255m (2014: £47,468m).

At 31 March 2015, the group had entered into contractual commitments in respect of capital expenditure amounting to £3,405m (2014: £5,693m).

7. Notes to the statement of cash flows

	2015 Group £m	2014 Group £m
Profit before tax	506	1,035
Adjustments for:		
Property revaluation movements and profits on disposal	(140)	(96)
Fair value loss/(gain) on derivatives and debt	41	(304)
Net interest expense	1,328	1,366
Depreciation of the railway network	1,732	1,603
Amortisation of capital grants	(83)	(82)
Amortisation of intangible assets	1	1
Movement in retirement benefit obligations	56	56
(Decrease)/increase in provisions	(93)	135
Operating cash flows before movements in working capital	3,348	3,714
Increase in inventories	(25)	(16)
Decrease/(increase) in receivables	157	(289)
Increase in payables	34	384
Cash generated from operations	3,514	3,793

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 short-term deposits. There were no short term deposits held as at 31 March 2015 (2014: £163m with

an average term of 22 days from the balance sheet date). Cash and money market deposits had an average maturity of 35 days (2014: ten days) from the balance sheet date.

8. Borrowings

	2015 Group £m	2014 Group £m
Net borrowings by instrument		
Cash and cash equivalents*	313	1,253
Collateral placed with counterparties	726	36
Collateral received from counterparties	(250)	(261)
Commercial paper	-	(255)
Overdrafts	-	(51)
Bank loans	(476)	(469)
Bonds issued under the Debt Issuance Programme (less unamortised premium, discount and fees)	(31,622)	(33,240)
Borrowings issued by the Department for Transport	(6,450)	-
	(37,759)	(32,987)
Movement in net borrowings		
At the beginning of the period	(32,987)	(30,358)
Decrease in cash and cash equivalents	(940)	(2,253)
Decrease/(increase) in overdrafts	51	(51)
Proceeds from borrowings	(6,450)	(5,104)
Repayments of borrowings	2,738	3,975
Capital accretion	(226)	(298)
Exchange differences	23	304
Movement in collateral placed with counterparties	690	22
Movement in collateral received from counterparties	11	143
Fair value and other movements	(669)	633
At the end of the period	(37,759)	(32,987)
Net borrowings are reconciled to the balance sheet as set out below:		
Cash and cash equivalents*	313	1,253
Collateral placed with counterparties (included in trade and other receivables)	726	36
Collateral received from counterparties (included in trade and other payables)	(250)	(261)
Borrowings included in current liabilities	(3,133)	(2,707)
Borrowings included in non-current liabilities	(35,415)	(31,308)
	(37,759)	(32,987)

* Includes collateral received from derivative counterparties of £250m (2014: £261m)