London Underground Limited

Annual Report and Financial Statements
Year ended 31 March 2022

Registered Office
5 Endeavour Square
Stratford
London
E20 1JN

Registered in England and Wales
Number 01900907

Contents

Directors' Report

Introduction

The directors present their annual report on the affairs of London Underground Limited (the "Company") together with the Financial Statements for the year ended 31 March 2022. The Company is a subsidiary undertaking of Transport Trading Limited ("TTL") and is part of the group headed by Transport for London ("TfL"), the "TfL Group".

Principal Activity

The principal activity of the Company is the provision of rail passenger transport services in London.

Directors

The directors, who served throughout the year and up to the date of this Report, were as follows:

A. Lord

L. Matson

P. McNaught

None of the directors had any beneficial interest in the shares of the Company or any other company within the TfL Group.

The Company maintains directors' and officers' liability insurance.

Employee Involvement and Communications

The Company has an employee communications strategy and plan in place to: ensure that employees are provided with information on matters of concern to them; ensure that employees and union representatives are consulted on matters that may affect them; encourage employee engagement in the Company's strategy and performance; and enable employees to be aware of financial and economic factors that affect the Company's performance.

Consultation on issues affecting the workforce also takes place at regular intervals with representatives from the Company and Trade Unions.

Employee Practice

The Company has a people strategy in place that aims to create a culture and environment for everyone to contribute and flourish, collaboratively as one team. The Company values the diversity which exists in our city and aspires to this being reflected in our workforce. This is reflected not only in its recruitment and selection processes, but also throughout the employment cycle of every member of staff. The Company is committed to providing equal opportunities to all employees, irrespective of their gender, sexual orientation, marital status, creed, colour, race, ethnic origin or disability. The commitment extends to recruitment and selection, training, career development, flexible working arrangements and promotion and performance appraisal. The Company is committed to comply with its legal responsibilities under the Equality Act 2010 to make reasonable adjustments to a person's working conditions wherever possible. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and to provide specialised training where this is appropriate. Employee numbers are disclosed in the notes to the accounts.

Directors' Report

Health, Safety, Security and Environment

The Company is committed to continuous improvement in health, safety, security and environmental ("HSSE") performance. In addition to HSSE management as part of the normal business activity, HSSE objectives are identified and regularly reviewed to form short and longer term plans as a basis for improving health, safety, security and environment for customers, employees and suppliers.

Streamlined Energy and Carbon Reporting helps businesses across the UK in scope of the 2018 Regulations to comply with their legal obligations in respect of energy and carbon usage reporting.

The TfL Accounts for the year ending 31 March 2022 include the required disclosures as per these regulations for the TfL Group. The relevant disclosures for the Company are made below.

The below table discloses the energy use and corresponding CO_2 emissions.

For the year ended 31 March	**2022**	**2022**	2021	2021
	Energy use	**CO_2 emissions**	Energy use	CO_2 emissions
	MWh	**tonnes**	MWh	tonnes
Electricity	**1,187,734**	**252,191**	1,134,305	264,452
Gas	**54,192**	**9,926**	62,692	11,527

For the year ended 31 March	**2022**	**2022**	2021	2021
	Consumption	**CO_2 emissions**	Consumption	CO_2 emissions
	litres	**tonnes**	litres	tonnes
Fuel - petrol	**113,674**	**249**	35,288	77
Fuel - diesel	**1,196,826**	**3,007**	1,256,489	3,199

Intensity metric	**2022**	**2022**	2021	2021
	Amounts	**Units**	Amounts	Units
Operated train km	**74,880,526.0**	**3.54kgCO2e/ Operated train km**	72,592,523.0	3.85kgCO2e/ Operated train km

On an annual basis, the safety, health, and environmental policy and performance reports, containing details of TfL's action plans in relation to furthering the green agenda are published on the TfL website.

Directors' Report

Charitable Donations and Political Contributions

No donations were made to charities during the year (2020/21 £nil). No political contributions were made during the year (2020/21 £nil).

Dividends

No interim dividends were paid during the year (2020/21 £nil) and the directors do not recommend the payment of a final dividend (2020/21 £nil).

Corporate Governance

London Underground Limited is a wholly owned subsidiary of TTL, which in turn is controlled by TfL, which appoints all the directors of the Company. The Board of London Underground Limited, through its management structure, implements the corporate aims and controls laid down by TfL. Particulars in respect of corporate governance can be found in the TfL Annual Report and Statement of Accounts.

Additional disclosures

The Company has chosen, in accordance with Section 414c (11) of the Companies Act 2006, to include certain matters in its Strategic Report that would otherwise be required to be disclosed in this Directors' Report.

Other information that is relevant to the Directors' Report can be located in the Strategic Report as follows:

Future developments	page 4
Principal risks and risk management	page 8

Auditor

The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006. Accordingly, no auditors have been appointed.

Signed on behalf of the Board by:

A. Lord

Director

29 June 2022

Strategic Report

Activities and Future Developments

As stated in the Directors' Report, the principal activity of the Company is the provision of rail passenger transport services in London. The Company does not anticipate any changes in its principal activities in the foreseeable future.

Directors' statement, section 172 of the Companies Act (2006)

As the board of directors of London Underground Limited both collectively and individually we fulfilled our duties, as detailed in section 172 of the Companies Act (2006), to a high standard throughout this reporting period.

Acting fairly between our stakeholders

TfL is a statutory corporation established by section 154 of the Greater London Authority Act 1999 (GLA Act 1999). It is a functional body of the GLA and reports to the Mayor of London. We are focused on promoting the success of the business and benefitting all our stakeholders. As a Local Authority, our activities and engagement are concentrated on delivering the Mayor's Transport Strategy and the needs of our passengers, our people, the general public, our supply chains and service providers.

Key priorities in the Mayor's Transport Strategy are: creating healthy streets and healthy people, creating a good public transport experience and delivering new homes and jobs. (See the Delivering Mayor's Strategy section of TfL's Accounts for the year ending 31 March 2022).

The TTL Group, which comprises Transport Trading Limited (a subsidiary of TfL) and its subsidiaries, reports into TfL. Key policies and governance for all TTL Group companies are set by the TfL Board.

High standards of business conduct

Our governance and decision-making arrangements ensure we manage the business responsibly and effectively and to high standards of business conduct (see TfL's Governance Framework in TfL's Accounts for the year end 31 March 2022). This includes operating within the requirements of relevant legislation (including Local Authority legislation), as well as understanding our responsibilities to spend public funds efficiently and manage risks effectively. TfL conducts, at least annually, a review of the effectiveness of its governance framework including the system of internal control, which is reported to the Audit and Assurance Committee. There is also an annual Board Effectiveness Review.

The opinion for the year ending 31 March 2022 concluded that TfL's governance framework was adequate for TfL's business needs and operated in an effective manner. The opinion highlighted work that was in progress to address previously disclosed weaknesses in several audits of governance and financial controls relating to procurement and contract management. These issues are being addressed by the Procurement and Supply Chain team.

The coronavirus pandemic has had a significant impact on TfL's operational activities and its finances. A Governance Improvement Plan was developed for 2020/21 that reflects this, and a review has been conducted with the Department for Transport (DFT) on TfL's sustainability and financial model. Cost control initiatives continued throughout the year as we worked towards our target of turning a deficit on the net cost of operations at the TfL Group level into a surplus.

We have established a committee structure to which we delegate detailed scrutiny of key areas of our responsibilities. We have ensured the TfL Board has the right range and depth of knowledge, skills and experiences to run the business effectively. We refreshed our Board membership, in line with best practice, so it remained relevant and up to date (the list of our members is set out in TfL's Accounts for the year end 31 March 2022). At the date of this report 47 per cent of our Board members are women. We understand the benefits of diversity and are continually seeking to improve this across our Board and executive teams.

Strategic Report

We also have a series of policies and guidance setting out expected standards of behaviour and conduct. Our policies include the TfL Code of Conduct, Anti-fraud and corruption policy, Slavery and Human Trafficking Statement and the Whistleblowing policy.

In an organisation as large as TfL, we partly fulfil our duties by delegating day-to-day decisions to company employees within our governance framework.

Coronavirus

Our priority during the coronavirus pandemic has been to follow government recommendations for action and keep services running.

In support of the Government's efforts to stop the spread of coronavirus we have been doing everything we can to make our network safe, clean and reliable, examples of measures implemented include:

- Using long-lasting hospital-grade cleaning substances that kill viruses and bacteria on contact
- Cleaning key interchanges more frequently throughout the day
- Trialling continuous UV cleaning of escalator handrails
- Wiping down all touch surfaces on buses, such as poles and doors with strong disinfectant every day
- Added more than 1,000 hand sanitiser points across the network
- Actively managing demand across the network and promoting travel during quiet times to ensure that those who needed to travel could continue to do so safely

We continued to support the recovery of London following the Government's roadmap for coming out of lockdown. Passenger journeys have seen significant growth since the removal of Government restrictions, with total TfL journeys increasing to 68 per cent of pre-pandemic levels at the end of 2021/22.

We oversaw and monitored the response of our executive leadership team to the crisis and ensured that appropriate governance and decision-making frameworks were put in place. We ensured that key decisions were taken in a timely manner to safeguard our people, our passengers, and the public, and to support the country by ensuring essential services continued to run, particularly for key workers.

We maintained regular and open communications with our people, our passengers, train operating companies, key stakeholders, and supply chain to support good decision making.

Likely consequences of decisions in the long term

We develop our strategy in consultation with our stakeholders, to improve the services we provide to our passengers, suppliers, customers and communities, and our people. We have created our new Vision and Values – a bold, long-term vision for the next era for TfL – that sets out our ambitions for the future and outlines what we need to achieve them. We have developed a set of five Roadmaps that chart our next steps towards becoming London's strong, green heartbeat. These Roadmaps are:

(i) Colleague roadmap: Be a great place to work for everyone to thrive

(ii) Customer roadmap: Give customers more reasons to choose sustainable travel

(iii) Finance roadmap: Rebuild our finances, be more efficient and secure our future

(iv) Green roadmap: Reduce emissions in London and protect and improve our environment

(v) Our Foundation: Operational and project delivery

Strategic Report

Interests of the Group's employees

We strive to create a workplace that is safe, secure and contributes to an engaged workforce.

We have now launched our Vision and Values; a culmination of what our people said our future should look like and how they said we should work together to achieve it. This includes our organisational values – caring, open and adaptable.

Our colleague roadmap sets out how we will deliver our ambition to be a great place to work for everyone to thrive. We have recently introduced a new approach to managing talent and career progression, supporting everyone to have regular conversations about their role and their development.

We continue to work closely with our Trade Unions, ensuring that local, functional and company-level meetings take place across different parts of the organization.

Since coronavirus restrictions eased, we continue to support those employees who have been working remotely to come in and spend more time in the office. We are operating a hybrid working approach which offers more flexibility and means we can offer a richer, more enjoyable working experience.

The wellbeing of our employees remains a priority and we continue to offer a range of services and resources to support physical and mental health.

Ensuring we hear the voice of our employees remains important to us. While our Trade Union relationships play a significant role in achieving this, our staff network groups provide employees the chance to share ideas and support each other in developing our equality agenda in all areas of employment.

Impact of operations on the community and the environment

Streamlined Energy and Carbon Reporting (SECR) helps businesses across the UK in scope of the 2018 Regulations to comply with their legal obligations in respect of energy and carbon usage reporting.

The TfL Accounts for the year ending 31 March 2022 include the required disclosures as per these regulations for the TfL Group. The relevant disclosures for the Company are made within the Directors' Report of this Annual Report and Financial Statements.

On an annual basis, the safety, health, and environmental policy and performance reports, containing details of TfL's action plans in relation to furthering the green agenda are published on the TfL website.

Fostering business relationships with suppliers, customers and others

Working alongside our suppliers and Trade Union partners, we have measures put in place to protect staff and customers during the pandemic.

During the year we developed initiatives to make us more dependable and easier to work with by working smarter with our supply chain partners and involving them earlier in the planning phase to help us improve efficiency. The Procurement and Commercial team has seen significant changes in its management, who are leading a programme of transformation activity that will also strengthen commercial and procurement controls.

Strategic Report

Financial and Business Review

Fares income has increased by £873.5m compared with last year. The Company carried 748m passengers over the year as the easing of coronavirus restrictions in the latter part of the year resulted in 452m more passengers, an increase of 152.7 per cent on last year.

Operating costs are £70.0m lower than last year, inflationary pressures are offset by a reduction in additional coronavirus costs (PPE, new cleaning regimes, social distancing) following the coronavirus vaccine roll-out and the easing of Government restrictions together with our modernisation programme of change, lowering our cost of operating, improving performance and making London Underground a better place to work, all whilst maintaining a safe and reliable network. As a result of the changes we are making, some functions have also moved across directorates and companies within the TfL Group as new teams and reporting lines are formed.

Capital expenditure increased compared to last year as we recover from the coronavirus pandemic and continue to invest heavily in our infrastructure, prioritising investments based on funding and ensuring value for money.

On the Northern Line Extension, the project came in £160m under budget, bringing its estimated final total cost to £1.1bn, despite the cost pressures brought about by the pandemic. On 20 September 2021, two new stations at Nine Elms and Battersea Power Station welcomed their first customers. The two step-free Zone 1 stations are set to dramatically improve the connectivity of these vibrant south London neighbourhoods and contribute to the Capital's recovery from the pandemic. December 2021, we were awarded 'Excellent' for Civil Engineering Environmental Quality Assessment & Award Scheme (CEEQUAL), which is a sustainability assessment awarded by the British Research Establishment. Sustainability was considered at all stages of the project, including efficient use of materials, responsible procurement, and the use of barges to remove construction spoil from site to be used in land reclamation. This award was achieved by the hard work and commitment of Ferrovial Laing O'Rourke and ourselves, with the support from the many suppliers and subcontractors. The team is now focused on closing out snagging items, completing assurance documentation, achieving commercial closure and working towards project closure in 2022.

As part of the Four Lines Modernisation programme, we have already introduced 192 new S-stock trains on the network. The combined effect of the coronavirus pandemic delays and the complexity of re-planning the closure-based works integrating future events in London has led to challenges to the programme, however significant progress was made and two major milestones were achieved in the financial year. On 24 April 2021 with the extension of the section of new signalling on the District and Circle lines from Monument to Sloane Square. This paves the way for frequencies to be increased and service reliability to be further improved as soon as the rest of the route has been automated. On 27th March 2022, the programme reached a major milestone when the new signalling system went live in Signalling Migration Area 5 between Sloane Square, Paddington, Fulham Broadway and Barons Court. This phase involves upgrading the highly complex junction at Earl's Court and marks the entire Circle line has been upgraded to the new signalling system.

In November 2018, we signed a £1.5bn contract with Siemens to design and build a new fleet of Piccadilly line trains. In August 2021 our train supplier Siemens achieved a key milestone to begin the manufacture of the first intermediate car as planned in line with the phased assurance of the design to achieve assurance stage 1 in December 2021. This was confirmed by Siemens with a virtual tour of the factories. On 15 December, the new Piccadilly line train cab mock-up arrived at the Tunnelling and Construction Academy in East London from Siemens in Germany. The design and build contract for the high voltage power for immunisation works was awarded in November 2021, with work starting on site in December 2021. This contract will deliver the power infrastructure to support the frequency conversion of this equipment.

At Bank Station, the works and preparation for the Northern Line Bank branch closure have concluded. We ran an extensive communication, marketing and operational campaign to manage travel demand and minimise the impact on customers. This line closure between Kennington and Moorgate started as planned on 15 January and will last for 17 weeks. At the end of this closure, a new platform and central concourse will be brought into use, which will help relieve congestion on the Northern line platform. Station wall cladding finishes and floor tiling work continues, although it was impacted by supply chain challenges. The installation of 12 escalators, two moving walkways, power, lighting, fire and communications systems has progressed to plan. The testing and commissioning of all systems is being conducted in tandem to prepare for handover to operations for passenger use.

Harrow-on-the-Hill was the 91st station to be delivered as step-free and means that 33.5 per cent of Tube stations are now step-free. Work on the final 3 stations in the current programme has been paused while our funding position is clarified.

The redevelopment scheme at Tottenham Hale, which includes a new integrated ticket hall providing seamless step-free interchange with National Rail, was successfully brought into customer service on 13 December 2021. Work is progressing on co-funded station enhancement schemes at Knightsbridge and Paddington, which are on target to be open to the public next year.

We achieved our key programme milestone by installing 8 kilometres of new track in the year and replaced 12 sets of points at Northfields over the Christmas period, which will enable the future Piccadilly line trains to be introduced and run safely through the area. We took delivery of two rail-mounted cranes and eight tilting wagons for modular points and crossings renewals which will yield significant time and quality benefits.

Our ongoing programme of modernisation works on the Bakerloo, Central & Jubilee line fleets is critical to improving safety, reliability, accessibility and lowering our running costs. These projects continue to progress with detailed design validation through the installation and testing of prototype systems. In addition we are continuing to deliver large-scale heavy maintenance work on our fleet.

Contracts have been signed for the Central line signalling and control system life extension. The first five-year tranche of the incremental signalling upgrade programme is progressing well, with concept and detailed design starting on updating the Bakerloo line control system.

We are continuing to upgrade key components of our Connect radio system and are now focusing on rolling out new radio hardware base-stations which will enable the Connect system to function into the 2030s. We have delivered Critical Incident Management (CIM) functionality at 62 stations, enabling us to remotely control and evacuate a station in the event of a critical incident, and also upgraded our CCTV at 75 stations. To tackle fare evasion, we have continued work on enable us to target fare evasion more effectively which has directly contributed to the identification and prosecution of fare evaders.

Principal Risks and Risk Management

The Company identifies, manages and mitigates significant areas of business risk as part of the normal course of business. The London Underground Limited Risk Management plan is set up to complement this basic management by the business and to provide a framework for the organisation to ensure that business risks are appropriately identified, reviewed regularly and that progress on the management of key business risks is tracked.

The principal risks to which the Company is exposed include safety, terrorism, employee relations, contractual claims, reputational and financial. All business risks are recorded in a risk register. For each risk, an owner has been identified who is responsible for implementing the mitigation strategy that has been identified.

As part of its overall corporate governance brief within the TfL Group, the TfL Audit and Assurance Committee has specific responsibility for assuring the TfL Board that effective risk management arrangements are in place. The risk management process is subject to annual review by the TfL Group's Director of Internal Audit.

Strategic Report

Funding Risk

The Company is dependent on funds provided to it by Transport for London ('TfL'), the ultimate parent organization, in order to ensure working capital and funding requirements are satisfied. TfL has committed to providing the Company with sufficient financial means to meet all its liabilities when they fall due for payment.

The pandemic has acted to decimate our finances and has exposed the inadequacy of our current funding model. The significant exposure to changes in demand due to high fixed costs and dependence on fares revenue mean that it is particularly susceptible to recessions and other travel demand shocks.

For the period 1 April 2020 to 31 March 2022, the Secretary of State for Transport has provided a series of extraordinary funding grants through four distinct funding agreement. On top of this grant funding, a further additional borrowing from PWLB was agreed in 2020/21.

On 30 August 2022 the TfL Board approved a long term 20-month funding settlement with the DfT until 31 March 2024. This is significantly longer than any of the previous settlements during the pandemic. The agreement provides TfL £1.2bn of Government funding along with guaranteeing passenger revenue for the period.

Details of, and conditions attaching to the latest funding agreement are set out in TfL's Annual Report and Statement of Accounts and on the TfL website (www.tfl.gov.uk).

The Government recognizes the need for certainty and stability for TfL's capital investment pipeline and the settlement will ensure delivery of key capital renewals and investment in London. Reaching agreement is crucial for the coming years in order to avoid a 'managed decline' of London's transport network.

Signed on behalf of the Board by:

A. Lord

Director

29 June 2022

Statement of Directors' Responsibilities

In Respect of the Directors' Report, the Strategic Report and the Financial Statements

The directors are responsible for preparing the Directors' Report, the Strategic Report, and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs") and applicable law.

Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with Adopted IFRSs; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

Income Statement

For the year ended 31 March	Note	2022 £m	2021 £m
Revenue	1	1,577.2	700.1
Net operating costs		(2,400.9)	(2,470.4)
Operating loss	2	**(823.7)**	(1,770.3)
Grant income	3	718.9	2,093.2
Exceptional items	4	-	(13.5)
Other gains and losses	5	(19.5)	(23.9)
Total (loss)/profit from operations		(124.3)	285.5
Financial income	8	34.0	1.0
Financial expenses	9	(263.2)	(261.1)
(Loss)/profit before taxation		(353.5)	25.4
Income tax credit/(expense)	10	5.2	(48.9)
Loss for the year attributable to the owners of the Company		(348.3)	(23.5)

Statement of Comprehensive Income

For the year ended 31 March	2022 £m	2021 £m
Loss for the year	(348.3)	(23.5)
Other comprehensive income and expenditure		
Items that will not be subsequently reclassified to profit or loss		
Surplus on valuation gain on newly created investment properties	46.4	71.4
Revaluation of property, plant and equipment	3.5	5.1
Total comprehensive income and expenditure for the year attributable to owners of the Company	(298.4)	53.0

Statement of Financial Position

	Note	31 March 2022 £m	31 March 2021 £m
Non-current assets			
Intangible assets	11	15.9	1.7
Property, plant and equipment	12	20,193.0	20,193.1
Right-of-use assets	13	219.9	243.4
Investment property	14	185.8	158.5
Long term loans receivable	15	1,650.0	1,500.0
Long term trade and other receivables	18	18.5	17.4
		22,283.1	22,114.1
Current assets			
Inventories	16	48.7	42.9
Assets classified as held for sale	17	95.5	21.4
Trade and other receivables	18	118.6	48.1
Cash and cash equivalents	19	12.1	6.9
		274.9	119.3
Current liabilities			
Trade and other payables	20	(806.4)	(854.5)
Right-of-use lease liabilities	13	(31.0)	(27.6)
Short-term PFI finance liabilities	23	-	(0.4)
Short-term other financing liabilities	21	(6.4)	(6.2)
Provisions	24	(31.4)	(20.7)
		(875.2)	(909.4)
Non-current liabilities			
Trade and other payables	20	(2.8)	(6.8)
Borrowings	22	(8,408.2)	(8,392.3)
Right-of-use lease liabilities	13	(187.2)	(216.1)
Long-term other financing liabilities	21	(121.7)	(128.1)
Provisions	24	(22.9)	(19.2)
Deferred grants and other contributions	25	(10,311.4)	(9,634.5)
		(19,054.2)	(18,397.0)
Net assets		2,628.6	2,927.0
Equity			
Share capital	27	-	430.0
Share premium account		36.1	36.1
Retained earnings		2,496.0	2,185.2
Revaluation reserve		96.5	275.7
Total equity attributable to the owners of the Company		2,628.6	2,927.0

Statement of Financial Position

The directors:

(a) confirm that the Company was entitled to exemption under section 479A of the Companies Act 2006 relating to subsidiary companies from the requirement to have its Financial Statements for the financial year ended 31 March 2022 audited;

(b) confirm that members have not required the Company to obtain an audit of its Financial Statements for that financial year in accordance with section 476 of the Companies Act 2006; and

(c) acknowledge their responsibilities for:

(i) ensuring that the Company keeps adequate accounting records which comply with section 386 of the Companies Act 2006; and

(ii) preparing Financial Statements which give a true and fair view of the state of affairs of the Company as at the end of its financial year and of its surplus or deficit for the financial year in accordance with the requirements of sections 393 and 394 of the Companies Act 2006, and which otherwise comply with the requirements of that Act relating to Financial Statements, so far as applicable to the Company.

The notes on pages 17 to 58 form part of these Financial Statements. These Financial Statements were approved by the Board on 29 June 2022 and signed on its behalf by:

A. Lord
Director
Company Registration Number 01900907

Statement of Changes in Equity

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 April 2020	430.0	36.1	273.1	2,134.8	2,874.0
Loss for the year	-	-	-	(23.5)	(23.5)
Other comprehensive income and expenditure:					
Surplus on valuation gain on newly created investment properties	-	-	-	71.4	71.4
Net gain on revaluation of property, plant and equipment	-	-	5.1		5.1
Transfer of historic cost depreciation on revalued property	-	-	(2.5)	2.5	-
At 31 March 2021	430.0	36.1	275.7	2,185.2	2,927.0
Loss for the year	-	-	-	(348.3)	(348.3)
Other comprehensive income and expenditure:					
Surplus on valuation gain on newly created investment properties	-	-	-	46.4	46.4
Net gain on revaluation of property, plant and equipment	-	-	3.5	-	3.5
Realisation of revaluation reserve	-	-	(182.0)	182.0	-
Transfer of historic cost depreciation on revalued property	-	-	(0.7)	0.7	-
Share capital reduction	(430.0)	-	-	430.0	-
At 31 March 2022	**-**	**36.1**	**96.5**	**2,496.0**	**2,628.6**

Statement of Cash Flows

For the year ended 31 March	Note	2022 £m	2021 £m
Cash generated from operating activities			
Loss for the year		(348.3)	(23.5)
Adjustments for			
Amortisation of intangible assets	11	3.5	0.7
Depreciation of property, plant and equipment	12	599.5	613.7
Impairment of property, plant and equipment	12	26.3	4.8
Depreciation of right-of-use assets	13	25.0	24.9
Loss on disposal of property, plant and equipment	5	4.4	27.7
Gain on disposal of investment properties	5	(20.2)	(4.9)
Change in fair value of investment properties	5	35.3	1.1
Reversal of unrealised losses on foreign exchange			
Reversal of fair value movement on derivatives			
Financial income	8	(34.0)	(1.0)
Financial expenses	9	263.2	261.1
Reversal of tax expense	10	5.2	48.9
Release of deferred grant to the Income Statement	25	(344.7)	(344.4)
Cash flow from operating activities before movements in working capital		215.2	609.1
(Increase)/decrease in inventories		(5.8)	8.2
Decrease in trade and other receivables		4.3	1,117.0
(Decrease)/increase in trade and other payables		(63.1)	22.6
Increase/(decrease) in provisions		14.4	(17.2)
Cash generated from operations		165.0	1,739.7
Taxation paid		(5.2)	(48.9)
Net cash generated from operating activities		159.8	1,690.8
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		58.4	-
Proceeds from disposal of investment properties		106.7	75.4
Loans to fellow group undertakings		(150.0)	(1,500.0)
Acquisition of intangible assets		(7.7)	(1.7)
Acquisition of investment properties		-	(3.0)
Acquisition of property, plant and equipment		(919.8)	(713.4)
Capital grants received		1,037.6	7.8
Interest received		1.1	1.0
Net cash generated from/(utilised by) investing activities		126.3	(2,133.9)

Statement of Cash Flows

For the year ended 31 March		2022	2021
	Note	£m	£m
Cash flows from financing activities			
Drawdown of external borrowings		15.9	719.9
Payments relating to lease and PFI arrangements		(27.4)	(26.1)
Repayment of financing liabilities		(6.2)	(1.7)
Interest paid		(263.2)	(261.1)
Net cash (utilised by)/generated from financing activities		(280.9)	431.0
Increase/(decrease) in net cash during the year		5.2	(12.1)
Net cash and cash equivalents at the start of the year		6.9	19.0
Net cash and cash equivalents at the end of the year		12.1	6.9

Accounting Policies

a) Reporting entity

London Underground Limited (the "Company" or "LU") is a Company domiciled in the United Kingdom. The Company's registration number is 01900907. The address of the Company's registered office is 5 Endeavour Square, Stratford, London, E20 1JN. The Company is a subsidiary of Transport Trading Limited ("TTL") which is in turn a subsidiary of Transport for London ("TfL").

b) Statement of accounting policies

This section explains the Company's main accounting policies, which, unless otherwise stated, have been applied to all periods presented in these Financial Statements.

c) Basis of preparation

Statement of Compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("Adopted IFRSs").

Basis of measurement

The accounts are made up to 31 March and have been prepared under the accruals concept and in accordance with the historical cost accounting convention, modified by the revaluation of certain categories of non-current asset.

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the Financial Statements in order to aid the reader's understanding of the Company's financial performance.

d) Use of estimates and judgements

The preparation of Financial Statements in compliance with Adopted IFRSs requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the Financial Statements are disclosed below. It is not considered likely that any reasonably possible changes in key assumptions in the next 12 months would have a material impact on the carrying amounts of balance sheet items not already held on the Statement of Financial Position at fair value.

Determining whether an arrangement contains a lease

In determining whether an arrangement contains a lease, as required by IFRS 16 – Leases, there is significant judgement in determining whether the arrangement conveys the right to control the use of an identified asset and in determining the lease term particularly in respect of whether the Company is reasonably certain to exercise extension options.

For arrangements where the Company is a lessor there is significant judgement involved in respect of whether the arrangement is finance or an operating lease.

Leases

When the interest rate implicit in the lease cannot be readily determined, TfL's incremental borrowing rate (IBR) at the lease commencement date is used to calculate the present value of the lease payments. This is the interest rate that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. When no observable inputs are available, the Company estimates the IBR, making assumptions to reflect the terms and conditions of the lease and certain entity-specific estimates. These assumptions include the consideration of a number of components including the risk-free rate, the lease term, the credit spread and adjustments related to the specific nature of the underlying asset.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment.

Accounting Policies

Valuation of peppercorn leases

The Company has a number of leases over property and other transport infrastructure under which it pays £nil or peppercorn rents. It has undertaken an exercise to assess the fair value of the assets leased under these arrangements and has concluded that they have no material value. No amounts have therefore been recorded in the financial statements in respect of these leases.

Classification of investment property

IAS 40 Investment properties ("IAS 40") requires that properties are classified as investment properties where they are held for the purpose of capital appreciation or to earn rentals. The Company owns a number of commercial properties as part of its infrastructure where part of the property is leased out to third parties. To comply with IAS 40, judgement needs to be exercised in determining whether these properties should be classified as investment properties. As investment properties are valued at fair value with movements in the fair value being recorded in the Income Statement this could have a significant effect on the financial performance of the Company.

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value (open market value), as estimated by external, professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) guidelines. Gains and losses from changes in the fair value of investment property are included in the Comprehensive Income and Expenditure Statement for the period in which they arise. Market activity has been impacted in many sectors by the coronavirus pandemic.

Office buildings

Owner-occupied office buildings held within property, plant and equipment are held at their existing use value, as estimated by external, professionally qualified surveyors in accordance with RICS guidelines. Movements in the value of the property are taken to the revaluation reserve. Market activity has been impacted in many sectors by the coronavirus pandemic.

Provisions

Estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the Company. This can be very complex, especially when there is a wide range of possible outcomes.

Availability of future capital funding

In assessing whether any impairment of the carrying value of assets under construction on the Statement of Financial Position date is required, management exercises judgement as to the level of funding that may be available to fund future expenditure on these projects through to completion. If insufficient future funding is anticipated, management reviews the carrying value of existing assets under construction for possible impairment.

Useful economic life of property, plant and equipment

When determining the useful economic life of property, plant and equipment, judgement must be exercised in estimating the lengths of time the assets will be operational.

Expected credit loss allowance

The expected credit loss allowance recognised in respect of financial assets is based on a forward-looking probability-weighted measure considering reasonable and supportable information on past events, current conditions and the time value of money. As at 31 March 2022, management were required to make estimates regarding future losses based on the impact of the coronavirus outbreak on credit risk. Given the unprecedented nature of the pandemic, a greater than usual level of judgement was involved in reaching this estimate.

Accounting Policies

Releases on deferred grant balances

The expected releases on deferred grant balances is based on a model that utilises the useful economic life of property, plant and equipment to spread the release of the grant balances over the useful life of the asset.

Taxes

Deferred tax assets are recognised for unused tax losses only to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Company has tax losses carried forward with a tax value of £1,289.3m (2021 £978.9m). These losses do not expire and may be used to offset future taxable income of the Company. If the Company was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by £2,558.6m (2021 £1,838.1m).

e) New standards and interpretations adopted for the first time in these Financial Statements

Standards and interpretations issued by the International Accounting Standards Board ("IASB") are only applicable if endorsed by the EU. The following amendments have been applied for the first time in these Financial Statements:

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The phase 2 amendment addresses financial reporting implications when an existing interest rate benchmark is replaced with an alternative and highlights the following:

- Facilitates a practical expedient when accounting for changes in the basis for determining the contractual cash flows (and resultant carrying value) of financial assets and liabilities measured at amortised cost or fair value through comprehensive income, to allow the effective interest rate to be adjusted
- Relief from discontinuing hedge relationships because of changes to hedge documentation required by the Reform
- Temporary relief from having to meet the separately identifiable requirement when an alternative Risk Free Rate, such as SONIA is designated as a risk component of a hedge relationship as a replacement for the existing interest rate benchmark (LIBOR)
- IFRS 16 lessees are required to remeasure their lease liabilities in similar fashion to any other change in estimate, rather than as a lease modification

The impact of the IBOR reform has been assessed to have minimal impact on the Company's accounts for the year ending 31 March 2022. The instruments that used to reference GBP LIBOR are lease contracts. The leases met the economically equivalent criteria for the application of the practical expedient.

f) New standards and interpretations not yet adopted

The following revisions to IFRS are expected to be applicable in future periods, subject to endorsement where relevant. These have been issued by the EU, but have not been applied in these Financial Statements:

IFRS 17 Insurance Contracts (mandatory for years commencing on or after 1 January 2023)

IFRS 17 will replace IFRS 4 and provides an accounting model for insurance contracts that is more useful and consistent for insurers than existing standards. This standard is not applicable to the Company.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective for annual periods beginning on or after 1 January 2022)

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Accounting Policies

The amendment must be applied retrospectively only to assets made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (effective for annual periods beginning on or after 1 January 2022)

The amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specifies that only directly related costs need to be included when assessing whether a contract is onerous or loss-making. The directly related costs include both incremental costs (e.g. the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g. depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded, unless they are explicitly chargeable to the counterparty under the contract.

The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

Classification of Liabilities as Current or Noncurrent - Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023)

The amendments clarify the requirements for classifying liabilities as current or non-current.

Reference to the Conceptual Framework – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022)

The amendment adds an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS Standards.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method)

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3.

Amendment to IAS 8 on Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023)

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (effective for annual periods beginning on or after 1 January 2023)

The amendments aim to make accounting policy disclosures more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and by adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

Accounting Policies

Amendment to IAS 12 on Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023)

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense).

The Company does not consider that any standards, amendments or interpretations issued by the IASB, but not yet applicable, other than those indicated in the paragraphs above, will have a significant impact on the Financial Statements.

g) Going concern

The Financial Statements have been prepared on a going concern basis, which the directors believe to be appropriate for the following reasons:

- The Company is dependent on funds provided to it by TfL, its ultimate parent, in order to ensure working capital requirements are satisfied. TfL has committed to providing the Company with sufficient financial means to meet all its liabilities when they fall due for payment. TfL's going concern assessment period up to 31 March 2024 (i.e. the remainder of the 2022/23 and 2023/24 financial years), indicates that it will continue to make such funds available to the Company up and until at least the same date, and represents the going concern assessment period for the Company. In addition, as set out in section 479A of the Companies Act 2006, the Company's immediate parent, TTL, has issued a guarantee over all outstanding liabilities to which the Company is subject as at 31 March 2022; and
- The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any Company placing reliance on other entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these Financial Statements, they have no reason to believe that it will not do so.

On 30 August 2022, the TfL Board approved a long term 20-month funding settlement with the DfT, which is significantly longer than any of the previously settlements during the pandemic. This funding settlement provides £1.2bn of Government funding along with the guaranteeing of passenger revenue over the period to 31 March 2024, but is subject to a number of conditions.

The key features and conditions, as well as the revised plan and proposed mitigations are set out in TfL's Annual Report and Statement of Accounts and on the TfL website (www.tfl.gov.uk).

Based on this undertaking, the directors believe that it remains appropriate to prepare the Financial Statements on a going concern basis.

h) Revenue recognition

Fares revenue

Revenue from annual or periodic tickets and Travelcards is recognised in the Comprehensive Income and Expenditure Statement on a straight-line basis over the period of validity of the ticket or Travelcard as TfL has a stand ready obligation to provide unlimited travel over the period of validity of the ticket or Travelcard. Oyster pay as you go revenue is recognised on usage and one-day Travelcards and single tickets are recognised on the day of purchase.

Revenue received in advance and not recognised in the Comprehensive Income and Expenditure Statement is recorded in the balance sheet and held within current liabilities – contract liabilities representing creditors' receipts in advance for Travelcards, bus passes and Oyster cards.

Accounting Policies

Revenue in respect of free and reduced fare travel for older customers and disabled customers

Revenue from the London Borough Councils in respect of free travel for older and disabled customers is recognised on a straight-line basis over the financial year to which the settlement relates, as TfL has a stand ready obligation to provide unlimited travel over the financial year to which the settlement relates.

Commercial advertising

TfL grants a concession partner control over certain advertising assets to facilitate the generation of advertising income across its estate and receives income from such arrangements. This is considered a lease arrangement for accounting purposes.

Where the arrangement is viewed as an operating lease under IFRS 16, revenue is be recognised on a straight-line basis over the term of the contract.

Where the arrangement is viewed as a finance lease (where the lease transfers substantially all the risks and rewards of ownership of the underlying asset to the third party) a lease receivable is recognised. Finance income is recognised over the term of the lease, based on a pattern reflecting a constant periodic rate of return on the lease receivable. Lease receipts are allocated between reducing the principal balance and interest income.

The Company, through its concessionaire partner, also sells advertising space to customers and receives income from such arrangements under a revenue share agreement with its concessionaire. Revenue share income is dependent upon the revenue generated by the concessionaire and is therefore contingent in nature. Such revenue is recognised in the period when it is earned. The Company receives performance monitoring credits when certain performance standards are not met. The performance monitoring credits are recognised as revenue when they are earned.

Rental income

Rental income from operating leases of properties, ATMs and car parks is recognised on a straight-line basis over the term of the lease. Rent free periods, incentives, or fixed annual increases in the lease payments are spread on a straight-line basis over the lease term. Any inflation lined annual increases in rentals are treated as contingent rents and are recognised as income when they occur. Rental income based on tenant turnover is considered to be variable income and is therefore recognised as income in the period in which it is earned.

As a result of the pandemic, there have been instances where credit notes have been issued to tenants after the invoice has been issued. In such instances, it is our accounting policy to account for the rent forgiveness as a loss (that is, not a reduction in lease income) in the income statement, with a corresponding reduction to the lease receivable in the period in which the reduction is contractually agreed.

For finance leases, where the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the customer, a lease receivable is recognised. Finance income is recognised over the term of the lease, based on a pattern reflecting a constant periodic rate of return on the lease receivable. Lease receipts are allocated between reducing the principal balance and interest.

Third party contributions to operating costs

Revenue from third-party contributions to operating costs is earned on services performed by TfL in conjunction with other organisations or government in relation to works such as dropping curbs, building roundabouts, installing traffic lights, installing shelters, escalators or elevators in stations, installing bus shelters, etc.

Revenue from third-party contributions is measured on the basis of progress towards completion, calculated using the proportion of costs incurred to date in relation to the total costs to be incurred on the entire project.

Commission income

When the Company earns commissions as an agent rather than the principal in a transaction, the revenue recognised is the net amount of commission made by the Company. This revenue is recognised in the financial year of the date that the sale is made.

Accounting Policies

i) Grants and other funding

Grants and other contributions received towards the cost of capital expenditure are recorded as deferred income in the Statement of Financial Position and released to the Income Statement over the estimated useful economic lives of the assets to which they relate.

Revenue grants received for the funding of operations are credited to the Income Statement on a systematic basis to match costs.

j) Employee benefits

Defined contribution scheme

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Income Statement in the periods during which services are rendered by employees.

Defined benefit plans multi-employer exemption

The majority of employees are members of a defined benefit scheme to which the Company contributes. However, it is not possible for the Company to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. This is because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. For this reason, as permitted by the multi-employer exemption in IAS 19 Employee Benefits ("IAS 19"), the scheme is accounted for as a defined contribution scheme and the Company's contributions are charged to the Income Statement as incurred. The disclosures required under IAS 19 are given in Note 26.

Other employee benefits

Other short- and long- term employee benefits, including holiday pay and long service leave, are measured on an undiscounted basis and are recognised as an expense over the period in which they accrue.

k) Leases (the Company as lessee)

The lease liabilities arising from a lease are initially measured on a present value basis comprising the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option, and
- lease payments to be made under reasonably certain extension options

The lease payments are discounted using the TfL Group's incremental borrowing rate, being the rate the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The interest rate implicit in the lease is only used when that rate is readily determinable, which is mostly in respect of the Company's former finance leases. All the Company's former operating leases have been discounted using the TfL Group's incremental borrowing rate. TfL Group's incremental borrowing rate is used for the Company as all Company borrowings are passed down from the company's ultimate parent, TfL, which is the body that raises financing from external parties on behalf of its operating subsidiaries.

Accounting Policies

For the current year, TfL's incremental borrowing rate for each tenor consists of Public Works Loan Board (PWLB) as this is the source of borrowing we have used during the pandemic.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate takes effect, then the lease liability is re-measured using the changed cash flows and changed discount rate. Further, a corresponding adjustment is also made to the right-of-use asset.

Lease payments are allocated between the repayment of principal and a finance cost. The finance cost is charged to the Income and Expenditure Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use assets are measured at cost comprising the following:

- the amount of initial measurement of lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. If it is reasonably certain that the Company will exercise a purchase option, then the right of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and with low-value assets are recognised on a straight-line basis as an expense in the Income and Expenditure Statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

IFRS 16 allows us to apply the practical expedient that permits lessees to make an accounting policy election, by class of underlying asset, to account for each separate lease component of a contract and any associated non-lease components as a single lease component. Our Accounting Policy is to apply this expedient to other equipment as a class of underlying asset. If the total non-lease components over the contract duration is less than five per cent of the total contract value or £500,000 whichever is lower, then the non-lease and lease components are treated as a single lease.

l) Leases (the Company as lessor)

Lease income from operating leases is recognised as income on a straight-line basis over the lease term. Rent free periods, incentives, or fixed annual increases in the lease payments are spread on a straight-line basis over the lease term. Any inflation linked annual increases in rentals are treated as contingent rents and are recognised as income when they occur. Rental income based on turnover is considered variable and is therefore recognised in the period it is earned. The respective leased assets are included in the Statement of Financial Position within property, plant and equipment based on their nature.

Lease income from finance leases is recognised over the lease term at an amount that produces a constant periodic rate of return on the remaining balance of the net investment in the lease. The net investment in the lease is the sum of lease payments receivable during the lease term discounted at the interest rate implicit in the lease.

Lease income in respect of property leases has been adversely impacted by the coronavirus pandemic. Bespoke support has been provided to tenants on a case-by-case basis and includes the grant of rent-free periods and other arrangements reflecting the position of each customer. The accounting treatment for the tenant support, which results in some divergence between net rental income on a reported basis and cash flow basis, is as follows:

Rent-free periods are generally considered to constitute a lease modification under IFRS 16, with the lease incentive deferred over the remaining lease term. The lease incentive balance will be assessed for impairment at each reporting date. If the pandemic continues and if the level of tenant failures is higher than expected, the impairment of tenant incentives and bad debt expense is also expected to increase.

Lease income from finance leases is recognised over the lease term at an amount that produces a constant periodic rate of return on the remaining balance of the net investment in the lease. The net investment in the lease is the sum of lease payments receivable during the lease term discounted at the interest rate implicit in the lease.

On lease commencement the carrying value of the asset is derecognised, the net investment in the lease is recognised as a finance lease receivable and any selling profit or loss is recognised in the Income and Expenditure Statement.

m) Financial income and expenses

Financing and investment income consists of interest income on funds invested. Interest income is recognised as it accrues in the Income Statement, using the effective interest rate method.

Financing costs comprise the interest expense on borrowings and interest expense on lease liabilities, and the net financing cost on defined benefit pension obligations. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those necessarily taking a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are ready for their intended use. In accordance with IFRS 1 First time adoption of International Financial Reporting Standards ("IFRS 1") and IAS 23 Borrowing Costs ("IAS 23"), the Company has taken the option not to capitalise borrowing costs on assets prior to the date of transition to IFRS.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the Income Statement using the effective interest rate method.

n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Income Statement except to the extent that they relate to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities, to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same tax authority and the Company has the right of set off.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

o) Intangible fixed assets

Software costs are measured at cost less accumulated amortisation and accumulated impairment losses. Assets under construction are measured at cost less accumulated impairment losses.

Accounting Policies

Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, unless such lives are indefinite.

Software costs have useful lives of 1 - 2 years and are amortised on a straight-line basis.

p) Property, plant and equipment

Recognition and measurement

Infrastructure consists of tunnels, viaducts, bridges, stations, track, signalling and properties attached to infrastructure and surplus properties held to facilitate construction of infrastructure.

Infrastructure, plant and equipment and rolling stock are measured at cost less accumulated depreciation and accumulated impairment losses.

Assets under construction are measured at cost less accumulated impairment losses.

The cost of certain items of property, plant and equipment was determined by reference to a previous GAAP valuation. The Company elected to apply the optional exemption allowed under IFRS 1 to use this previous valuation as deemed cost at 1 April 2009, the date of transition.

Office property consists of business properties, used by the Company for its own purposes, which are not limited in their future use by operational constraints or requirements and which are not integral to the infrastructure (e.g. offices).

Owner-occupied office buildings are valued at existing use value by external, professionally qualified surveyors in accordance with RICS Guidelines. Existing use value is the estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at the measurement date. In determining the existing use value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. Properties are therefore categorised as Level 3 in the fair value hierarchy, as the measurement technique uses significant unobservable inputs to determine the fair value measurements.

Valuations are performed annually.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009, and any other costs directly attributable to bringing the assets to a working condition for their intended use. Where there is a legal obligation to remove the asset and/or restore the site on which it is located at the end of its useful economic life, the costs of dismantling and removing the items and restoring the site on which they are located are also included in the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the Income Statement as incurred.

Accounting Policies

Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Tunnels and embankments	up to 120 years
Bridges and viaducts	up to 120 years
Track	up to 120 years
Signalling	up to 40 years
Stations	up to 120 years
Other property	up to 120 years
Rolling stock	up to 50 years
Lifts and escalators	up to 40 years
Plant and equipment	up to 75 years
Computer equipment	up to 15 years

Assets under construction and freehold land are not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds of disposal with the carrying amount and are recognised net within other gains and losses in the Income Statement.

q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are ready for their intended use. Qualifying assets are defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. A substantial period of time has been interpreted as being one year or longer. In accordance with IFRS 1 and IAS 23, the Company has taken the option not to capitalise borrowings costs on assets prior to the date of transition to IFRS. All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

r) Assets held for sale

Long-term assets (and disposal groups comprising a group of assets and potentially some liabilities that an entity intends to dispose of in a single transaction) are classified as held for sale if their carrying amount will be recovered principally through sale rather than continuing use, they are available for immediate sale and sale is highly probable. On initial classification as held for sale, long-term assets or disposal groups are measured at the lower of their previous carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on long-term assets (including those in disposal groups) classified as held for sale.

Accounting Policies

s) **Private Finance Initiative (PFI) arrangements**

The Company has entered into PFI arrangements with the private sector in relation to the construction, maintenance and operation of parts of London Underground infrastructure. In the absence of alternative guidance, arrangements are treated as service concession arrangements following the guidance, from a lessor's point of view, contained in IFRIC 12 Service Concession Arrangements (IFRIC 12), an interpretation under Adopted IFRS.

IFRIC 12 requires the Company to account for infrastructure PFI schemes where it controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement. The Company therefore recognises PFI assets as items of property, plant and equipment together with a liability to pay for them. The fair values of services received under the contract are recorded as operating expenses.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

a) The service charges

b) Repayment of the capital

c) The interest element (using the interest rate implicit in the contract)

Services received

The fair value of services received in the year is recorded in net operating costs.

Assets

Assets are recognised as property, plant and equipment or intangible assets when they come into use. The assets are measured initially at fair value in accordance with IPSAS 32 Service Concession Arrangements - Grantor (IPSAS 32).

Where the operator enhances assets already recognised in the Statement of Financial Position, the fair value of the enhancement in the carrying value of the asset is recognised as an asset.

Liabilities

A PFI liability is recognised at the same time as the assets are recognised. It is measured initially at the same amount as the fair value of the assets and is subsequently measured as a finance lease liability in accordance with IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the year and is charged to 'Financial expenses' within the Income Statement.

The element of the unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

Life cycle replacement

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the Company criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

t) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value with any changes therein recognised in the Income Statement in the period in which they arise. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. Investment properties held at fair value are not subject to depreciation.

Accounting Policies

Investment properties are valued annually at fair value by external, professionally qualified surveyors in accordance with RICS Guidelines. Fair value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. The methodology assumes the valuation is based on the highest and best use of the asset. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. Properties are therefore categorised as Level 3 in the fair value hierarchy, as the measurement technique uses significant unobservable inputs to determine the fair value measurements.

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property is included in the Income Statement in the period in which the property is derecognised. The gain or loss on disposal of the property is calculated as the difference between the proceeds on disposal and the carrying amount of the asset.

u) Inventories

Inventories consist primarily of fuel, uniforms, and materials required for the operation and maintenance of infrastructure. Equipment and materials held for use in a capital programme are accounted for as stock until they are issued to the project, at which stage they become part of assets under construction.

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

v) Impairment

Non-financial assets

Impairment occurs when an asset would otherwise be recorded in the Financial Statements at an amount more than is recoverable from its use or sale.

At each reporting date, the Company reviews the carrying amount of those assets that are subject to amortisation to determine whether there is an indication that any of those assets has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

Impairment losses are recognised in the Income Statement.

w) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at Management's best estimate of the consideration required to settle the obligation at the Statement of Financial Position date and are discounted to present value where the effect is material.

x) Financial instruments

Financial instruments within the scope of IFRS 9 Financial Instruments (IFRS 9) are classified as:

- financial assets measured at amortised cost
- financial assets measured at fair value through other Comprehensive Income and Expenditure ('FVTOCI')
- financial assets measured at fair value through the Income Statement ('FVTPL')
- financial liabilities measured at amortised cost
- financial liabilities at fair value through the Income Statement ('FVTPL')

Accounting Policies

The Company determines the classification of its financial instruments at initial recognition. Financial assets may be reclassified only when the Company changes its business model for managing financial assets, at which point all affected financial assets would be reclassified. Financial liabilities are not reclassified subsequent to initial recognition.

When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus any directly attributable transaction costs. The exception to this is for assets and liabilities measured at fair value, where transaction costs are immediately expensed.

The subsequent measurement of financial instruments depends on whether they are financial assets or financial liabilities and whether specified criteria are met.

Financial assets are measured at amortised cost if:

- it is the objective of the Group to hold the asset in order to collect contractual cash flows; and
- the contractual terms give rise to cash flows, which are solely repayments of a principal value and interest thereon

After initial recognition, these assets are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the Income Statement when the asset is derecognised or a loss allowance is applied, as well as through the amortisation process.

Financial assets are measured at FVTOCI if:

- assets are non-derivative and held within a business model whose objective is to realise their value through either the collection of contractual cash flows or selling of the financial assets; and
- the contractual terms of the financial asset give rise to periodic cash flows that are the payment of principal and interest.

After initial recognition, interest is taken to the Income Statement using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised in other Comprehensive Income and Expenditure (and taken to the Financial Instruments Revaluation Reserve), except for impairment gains or losses, until the investment is derecognised, or reclassified at which time the cumulative fair value gain or loss previously reported in reserves is included in the Income Statement. For equity instruments, unlike debt instruments, there is no transfer of accumulated amount in the Income Statement.

Financial assets are measured at FVTPL if they are:

- derivatives
- not held as amortised cost or at FVTOCI
- financial assets that were elected to be designated as measured at FVTPL

After initial recognition, assets are carried in the balance sheet at fair value with gains or losses recognised in the Income Statement.

Financial liabilities are measured at amortised cost if they are non-derivative with limited exceptions.

After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are measured at FVTPL if they are:

- derivatives
- other liabilities held for trading
- financial liabilities that were elected to be designated as measured at FVTPL

Accounting Policies

Cash and cash equivalents

Cash and cash equivalents comprise cash balances that are readily convertible to cash without significant penalty and with an outstanding maturity, at the date of acquisition, of less than or equal to three months. Cash and cash equivalents are classified as financial assets at amortised cost.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently classified as financial assets at amortised cost.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the point of initial recognition. Fair values calculated using the market rate of interest at the reporting date are also determined for disclosure purposes.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

Interest bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost.

Obligations under leases and PFI arrangements

All obligations under leases and PFI arrangements are classified as financial liabilities measured at amortised cost.

Other financing liabilities

Other financing liabilities are classified as financial liabilities measured at amortised cost.

Impairment of financial assets

At each reporting date, the Company assesses whether the credit risk on a significant financial asset measured at amortised cost or FVTOCI has increased significantly since initial recognition and subsequently measures an expected credit loss allowance for that financial instrument.

The expected loss allowance is a measurement based on the probability of default over the lifetime of the contract for trade receivables, lease receivables or contract assets in scope of IFRS 15. For other financial assets, the allowance is based on the probability of default occurring in 12 months providing credit risk is assessed as low.

The expected credit loss is based on a forward-looking, probability-weighted measure considering reasonable and supportable information on past events, current conditions and the time value of money. Where financial assets are determined to have shared risk characteristics they are assessed collectively, otherwise, they are reviewed on an individual basis.

Expected credit loss allowances are recognised in the Income Statement.

y) Fair value measurement

IFRS 13 Fair Value Measurement requires that financial instruments and other assets and liabilities that are measured in the Statement of Financial Position at fair value are measured by level of the following fair value measurement hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

Level 2: inputs other than quoted prices included that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

The fair values of financial instruments that are not traded in an active market (for example over the counter derivatives or infrequently traded listed investments) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable the instrument is included in level 2.

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Specific valuation techniques, such as discounted cash flow analysis, are used to determine fair value of the remaining financial instruments.

z) Exceptional items

Exceptional costs are costs that are unusual, infrequent and which do not occur in the normal course of operations. An unusual event or transaction has a high degree of abnormality and is clearly unrelated to (or only incidentally related to) the ordinary activities of the company, taking into account the operating environment. Infrequent refers to events and transactions that would not reasonably be expected to recur in the foreseeable future, taking into account the operating environment.

The significant costs incurred in relation to the coronavirus pandemic, such as costs incurred in bringing construction projects to a Safe Stop, have been considered exceptional items. These costs have been identified separately above the operating profit on the face of the Income Statement.

Notes to the Financial Statements

1 Revenue

For the year ended 31 March	2022 £m	2022 %	2021 £m	2021 %
Traffic revenue				
Fares collected	1,456.3	92.3	573.9	82.0
Revenue in respect of free travel for the elderly and disabled	66.8	4.2	75.7	10.8
	1,523.1	96.5	649.6	92.8
Other revenue				
Commercial advertising and rents receivable	43.5	2.8	12.4	1.8
Car parking income	1.1	0.1	0.3	-
Other revenue	9.5	0.6	37.8	5.4
	54.1	3.5	50.5	7.2
Total revenue	1,577.2	100.0	700.1	100.0

2 Operating loss

For the year ended 31 March	Note	2022 £m	2021 £m
Operating result is stated after charging/(crediting):			
Capital items			
Depreciation of property, plant and equipment	12	599.5	613.7
Amortisation of intangible assets	11	3.5	0.7
Impairment of property, plant and equipment - owned	12	32.7	4.8
Amortisation of right-of-use assets	13	25.0	24.9
Release of deferred capital grants to the Income Statement	25	(344.7)	(344.4)
Other operating costs			
Employee costs	6	1,291.7	1,272.9
Inventory expensed		67.6	53.8

Auditors' remuneration

The Company had no audit fees for the years ending 31 March 2022 or 31 March 2021.

Notes to the Financial Statements

3 Grant income

For the year ended 31 March	2022 £m	2021 £m
Revenue grant income receivable		
Grant from TfL to fund operations	718.9	2,093.2

4 Exceptional items

For the year ended 31 March	2022 £m	2021 £m
Coronavirus safe-stop project costs	-	13.5

5 Other gains and losses

For the year ended 31 March	Note	2022 £m	2021 £m
Change in fair value of investment property	14	(35.3)	(1.1)
Net gain on disposal of investment property		20.2	4.9
Net loss on disposal of property, plant and equipment		(4.4)	(27.7)
		(19.5)	(23.9)

6 Employee costs

For the year ended 31 March	2022 Number	2021 Number
Average number of employees (including directors) in the year	16,151	16,318

	£m	£m
Wages and salaries	938.1	919.6
Social security	108.7	106.2
Defined contribution pension costs	244.9	247.1
	1,291.7	1,272.9

Notes to the Financial Statements

7 Directors' emoluments

For the year ended 31 March	2022	2021
	Number	Number
Number of directors who received remuneration from the Company during the year	1	1
Number of directors who were members of a defined benefit pension scheme	1	1

The directors received the following remuneration:

For the year ended 31 March	2022	2021
	£	£
Salaries, fees and benefits in kind	240,666	136,110
Defined contribution pension costs	35,140	36,649
	275,806	172,759

Directors' emoluments and benefits were borne by other Group companies for two directors (2020/21 three directors).

The highest paid director received the following remuneration:

	2022	2021
	£	£
Salaries, fees and benefits in kind	240,666	136,110
Accrued benefit under defined benefit pension scheme	36,649	36,649

8 Financial income

For the year ended 31 March	2022	2021
	£m	£m
Interest receivable on loan notes to fellow Group undertakings	32.9	-
Other investment income	1.1	1.0
	34.0	1.0

Notes to the Financial Statements

9 Financial expenses

For the year ended 31 March	2022	2021
	£m	£m
Interest on loans from fellow Group undertakings	289.4	281.7
Interest on right-of-use lease liabilities	5.3	5.8
Contingent rental on PFI arrangements	0.3	0.3
Interest capitalised into the cost of property, plant and equipment	(36.0)	(30.6)
Other financing and investment expenditure	4.2	3.9
	263.2	261.1

10 Taxation

For the year ended 31 March	2022	2021
	£m	£m
Adjustments in respect of prior years	-	(1.6)
Current year UK Corporation Tax	(5.2)	50.5
Total income tax (credit)/charge for the year	(5.2)	48.9

Reconciliation of tax credit

For the year ended 31 March	2022	2021
	£m	£m
(Loss)/profit before tax	(353.5)	25.4
(Loss)/profit before tax multiplied by standard rate of Corporation Tax in the UK of 19% (2020/21 19%)	(67.2)	4.8
Effects of:		
Non-taxable and non-deductible items	(2.3)	(4.4)
Prior period adjustment	-	(1.6)
Amount charged to the current tax computation for which no deferred tax was recognised	64.3	51.0
Utilisation of brought forward tax losses for which no deferred tax was recognised	-	(0.9)
Income tax expense/(credit) for the year	(5.2)	48.9

Unrecognised deferred tax

Deferred tax assets have not been recognised in respect of the following items:

	31 March 2022	31 March 2021
	£m	£m
Deductible temporary differences	1,269.3	859.2
Tax losses	1,289.3	978.9
	2,558.6	1,838.1

Notes to the Financial Statements

The items above do not expire under current legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Company can utilise the benefits.

Recognised deferred tax

Deferred tax assets have been recognised to the extent of the deferred tax liabilities.

Movements were in respect of the following items:

	Opening balance £m	Movement in profit or loss £m	Closing balance £m
For the year ended 31 March 2022			
Deferred tax assets			
Deferred government grants	972.6	338.7	**1,311.3**
Property, plant and equipment - accelerated capital allowances	94.6	42.8	**137.4**
Deferred tax liabilities			
Property, plant and equipment - potential capital gain	(1,036.4)	(341.9)	**(1,378.3)**
Assets held for sale - potential capital gain	(4.1)	(19.8)	**(23.9)**
Investment property - potential capital gain	(26.7)	(19.8)	**(46.5)**
Net deferred tax asset/(liability)	-	-	**-**
For the year ended 31 March 2021			
Deferred tax assets			
Deferred government grants	1,172.6	(200.0)	972.6
Property, plant and equipment - accelerated capital allowances	64.6	30.0	94.6
Deferred tax liabilities			
Property, plant and equipment - potential capital gain	(1,210.4)	174.0	(1,036.4)
Assets held for sale - potential capital gain	(2.9)	(1.2)	(4.1)
Investment property - potential capital gain	(23.9)	(2.8)	(26.7)
Net deferred tax asset/(liability)	-	-	-

UK Corporation Tax is calculated at a rate of 19 per cent (2020/2021 19 per cent). In the Spring Budget 2021, it was announced that the main rate of Corporation Tax will increase to 25 per cent with effect from 1 April 2023, this amendment was substantively enacted in May 2021. As the company's deferred tax balances are not expected to be settled until after 1 April 2023, deferred tax balances at 31 March 2022 have been calculated at a rate of 25 per cent.

Notes to the Financial Statements

11 Intangible assets

a) Intangible assets at 31 March 2022 comprised the following elements:

	Note	Software costs	Assets under construction	Total
		£m	£m	£m
Cost or valuation				
At 1 April 2021		5.4	-	5.4
Additions		-	7.7	7.7
Transfers from property, plant and equipment		-	10.0	10.0
At 31 March 2022		5.4	17.7	23.1
Amortisation				
At 1 April 2021		3.7	-	3.7
Charge for the year	2	3.5	-	3.5
At 31 March 2022		7.2	-	7.2
Net book value at 31 March 2022		(1.8)	17.7	15.9
Net book value at 31 March 2021		1.7	-	1.7

b) Intangible assets at 31 March 2021 comprised the following elements:

	Note	Software costs
		£m
Cost or valuation		
At 1 April 2020		3.7
Additions		1.7
At 31 March 2021		5.4
Amortisation		
At 1 April 2020		3.0
Charge for the year	2	0.7
At 31 March 2021		3.7

Notes to the Financial Statements

12 Property, plant and equipment

a) Property, plant and equipment at 31 March 2022 comprised the following elements:

	Note	Infrastructure and other property	Rolling stock	Plant and equipment	Assets in the course of construction	Total
		£m	£m	£m	£m	£m
Cost or valuation						
At 1 April 2021		25,091.2	4,775.5	752.9	3,531.7	34,151.3
Additions		337.1	20.2	7.1	480.6	845.0
Transfers to other group undertakings		(58.4)	-	-	-	(58.4)
Transfers to assets held for sale		-	-	-	(70.4)	(70.4)
Transfers (to)/from other asset classes		1,364.3	5.4	2.4	(1,372.1)	-
Transfers to intangible assets		-	-	-	(10.0)	(10.0)
Transfers to investment properties		-	-	-	(70.3)	(70.3)
Revaluation		1.3	-	-	-	1.3
Disposals		-	-	(0.9)	-	(0.9)
Write offs		-	-	-	(13.8)	(13.8)
At 31 March 2022		**26,735.5**	**4,801.1**	**761.5**	**2,475.7**	**34,773.8**
Depreciation						
At 1 April 2021		11,181.3	2,235.5	536.6	4.8	13,958.2
Charge for the year	2	465.8	110.5	23.2	-	599.5
Revaluation		(2.3)	-	-	-	(2.3)
Disposals		-	-	(0.9)	-	(0.9)
Impairment		-	-	6.4	19.9	26.3
At 31 March 2022		**11,644.8**	**2,346.0**	**565.3**	**24.7**	**14,580.8**
Net book value at 31 March 2022		**15,090.7**	**2,455.1**	**196.2**	**2,451.0**	**20,193.0**
Net book value at 31 March 2021		13,909.9	2,540.0	216.3	3,526.9	20,193.1

Notes to the Financial Statements

b) Property, plant and equipment at 31 March 2021 comprised the following elements:

	Note	Infrastructure and other property	Rolling stock	Plant and equipment	Assets in the course of construction	Total
		£m	£m	£m	£m	£m
Cost or valuation						
At 1 April 2020		24,473.8	4,705.3	726.4	3,578.8	33,484.3
Additions		-	-	-	724.0	724.0
Transfers to right-of-use assets		-	-	-	-	-
Transfers (to)/from other asset classes		635.6	70.2	26.5	(732.3)	-
Transfers (to)/from investment properties		(20.9)	-	-	-	(20.9)
Revaluation		2.7	-	-	-	2.7
Disposals		-	-	-	(38.8)	(38.8)
At 31 March 2021		25,091.2	4,775.5	752.9	3,531.7	34,151.3
Depreciation						
At 1 April 2020		10,696.8	2,130.4	515.0	-	13,342.2
Charge for the year	2	487.0	105.1	21.6	-	613.7
Transfers to right-of-use assets		-	-	-	-	-
Transfers (to)/from investment properties		(0.1)	-	-	-	(0.1)
Revaluation		(2.4)	-	-	-	(2.4)
Impairment		-	-	-	4.8	4.8
At 31 March 2021		11,181.3	2,235.5	536.6	4.8	13,958.2

c) The net book value above includes the followings amounts in respect of PFI assets:

	Infrastructure and other property
	£m
Net book value	
At 31 March 2022	-
At 31 March 2021	137.7

Notes to the Financial Statements

d) Included in infrastructure and other property are office properties held at depreciated fair value as follows:

	At valuation	At historical cost	At valuation	At historical cost
	2022	**2022**	2021	2021
	£m	**£m**	£m	£m
Valuation/cost				
Fair value at 1 April	138.2	33.6	156.1	16.4
Additions	-	-	0.3	17.9
Transfers (to) investment properties	0.7	-	(20.9)	(0.7)
Transfers (to)/from other group undertakings	(59.4)	(3.7)	-	-
Revaluation	1.3	-	2.7	-
Fair value at 31 March	**80.8**	**29.9**	138.2	33.6
Accumulated depreciation				
Accumulated depreciation at 1 April	8.3	10.1	2.2	4.2
Charge for the year	1.7	0.9	8.6	6.1
Transfers (to)/from other group undertakings	(0.8)	(0.8)	-	-
Transfers to investment properties	0.2	-	(0.1)	(0.2)
Revaluation	(2.3)	-	(2.4)	-
Accumulated depreciation at 31 March	**7.1**	**10.2**	8.3	10.1
Net book value at 31 March	**73.7**	**19.7**	129.9	23.5
Net book value at 1 April	**129.9**	**23.5**	153.9	12.2

The existing use value of owner-occupied office buildings at 31 March 2022 has been arrived at on the basis of a valuation carried out at that date by CBRE, a real estate advisory business not connected with the Company, and by chartered surveyors working for the Company. In determining the existing use value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. The methodology therefore falls under level 3 of the fair value hierarchy. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2020/21 none).

Notes to the Financial Statements

13 Right-of-use assets and lease liabilities

a) Statement of Financial Position at 31 March 2022 shows the following amounts relating to leases:

	Note	Infrastructure and other property	Rolling stock	Motor Vehicles	Other equipment	Total
		£m	£m	£m	£m	£m
Cost						
At 1 April 2021		51.8	295.6	13.7	89.8	450.9
Additions		3.8	-	0.3	-	4.1
Revaluation		(1.0)	(1.5)	-	(0.1)	(2.6)
At 31 March 2022		**54.6**	**294.1**	**14.0**	**89.7**	**452.4**
Depreciation						
At 1 April 2021		4.6	174.3	5.6	23.0	207.5
Charge for the year	2	2.6	7.0	3.0	12.4	25.0
At 31 March 2022		**7.2**	**181.3**	**8.6**	**35.4**	**232.5**
Net book value at 31 March 2022		**47.4**	**112.8**	**5.4**	**54.3**	**219.9**
Net book value at 31 March 2021		47.2	121.3	8.1	66.8	243.4

b) Statement of Financial Position at 31 March 2021 showed the following amounts relating to leases:

	Infrastructure and property	Rolling stock	Motor Vehicles	Other	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2020	47.9	295.6	11.4	89.8	444.7
Additions	3.9	-	2.3	-	6.2
At 31 March 2021	**51.8**	**295.6**	**13.7**	**89.8**	**450.9**
Depreciation					
At 1 April 2020	2.3	167.2	2.5	10.6	182.6
Charge for the year	2.3	7.1	3.1	12.4	24.9
At 31 March 2021	**4.6**	**174.3**	**5.6**	**23.0**	**207.5**
Net book value at 31 March 2021	**47.2**	**121.3**	**8.1**	**66.8**	**243.4**
Net book value at 1 April 2020	45.6	128.4	8.9	79.2	262.1

Notes to the Financial Statements

c) Statement of Financial Position lease liabilities

The lease liabilities on the balance sheet are calculated as the present value of minimum lease payments outstanding.

	2022	2021
	£m	£m
At 31 March		
Principal outstanding		
Current	31.0	27.6
Non-Current	187.2	216.1
	218.2	243.7

	2022	2021
	£m	£m
Contractual undiscounted payments due in		
Not later than one year	35.2	32.0
Later than one year but not later than two years	34.8	32.8
Later than two years but not later than five years	100.3	99.8
Later than five years	126.5	161.9
Total	296.8	326.5
Less:		
Present value discount	(78.6)	(82.8)
Present value of minimum lease payments	218.2	243.7

d) Amounts recognised in the Income Statement

The Income and Expenditure Statement shows the following amounts relating to leases:

	2022	2021
	£m	£m
Depreciation charge on right-of-use assets	25.1	24.9
Interest expense (included in finance costs)	5.3	5.7
Expense relating to short-term leases (included in net operating costs)	0.5	-
Expense relating to low-value asset leases (included in net operating costs)	0.1	-

e) Total cash outflow for leases

The total cash outflow for leases in 2021/22 was £32.5m (2020/21 £31.6m).

f) The Company's leasing activities and how these are accounted for

As a lessee, the Company leases various infrastructure and office buildings, rolling stock, motor vehicles and other equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The accounting of the above leases is described within Accounting Policies section (k) and (l).

Notes to the Financial Statements

g) Future cash flows to which the lessee is potentially exposed that are/are not reflected in the measurement of lease liabilities

Variable lease payments:

Most of our infrastructure and office buildings have variable lease payments linked to a consumer price index. Our rolling stock contracts have variable lease payments interest linked to a floating rate. When there is a change in cash flows because of the change in consumer price index or change in floating rate, then we re-measure the lease liability to reflect those revised lease payments and make corresponding adjustment to the right-of-use asset.

Extension options and termination options:

Some of our lease contracts have extension and termination options. These options and related payments are only included when the Company is reasonably certain that it will exercise these options. At the date of this Annual Report, there are no facts and circumstances that create an economic incentive for the Company to extend or terminate the lease.

Leases not yet commenced to which the Company as a lessee is committed:

There are no leases not yet commenced to which the Company as a lessee is committed.

Notes to the Financial Statements

14 Investment properties

	Note	2022 £m	2021 £m
Valuation			
Fair value at 1 April		158.5	141.1
Additions		13.3	3.0
Transfers (to)/from other group undertakings		(50.5)	(59.3)
Transfers (to)/from other asset classes		70.4	20.8
Change in fair value	5	15.8	57.2
Disposals		(8.6)	(4.6)
Transfers (to)/from assets held for sale	17	(13.1)	0.3
Fair value at 31 March		185.8	158.5

The fair value of the Company's investment properties at 31 March 2022 has been arrived at on the basis of a valuation carried out at that date by CBRE, a property valuation company not connected with the Company, and by chartered surveyors working for the Company. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. Values are therefore calculated under level 3 of the fair value hierarchy. In estimating fair value, the highest and best use of the properties is assumed to be their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2020/21 none).

Market activity has been impacted in many sectors by the coronavirus pandemic. As at 31 March 2022, our valuers were able to attach less weight to previous market evidence for comparison purposes in informing their opinions of value. The valuations included in these financial statements are therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these values than would normally be the case.

Properties are valued annually in accordance with the Red Book, RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors.

During 2021/22 and 2020/21, in order to create a consolidated commercial property portfolio, assets previously held at a £nil depreciated historical cost value as part of larger operational infrastructure assets have been separately identified and classified as investment properties before being transferred into a designated investment portfolio in a fellow subsidiary undertaking of TTL. In addition, the creation of new lease structures allowed the recognition, for the first time, of newly separable investment property assets which have been recorded at fair value at the date of creation of the lease structure. As a result, in the year to 31 March 2022, a total revaluation uplift of £11.1m was recognised (2020/21 £70.3m). Of this a gain of £46.4m (2020/21 £71.4m) in relation to the initial valuation of newly created assets has been recognised within other comprehensive income. The remaining £35.3m net loss (2020/21 £1.1m net loss) relating to movements in the valuation of assets already held at valuation has been reflected within other gains and losses.

The Company's investment properties are let on a tenant repairing basis. The Company's maintenance obligations are limited to common areas and vacant property units.

Notes to the Financial Statements

15 Loans to related parties

	2022	2021
	£m	£m
Current		
Non-current		
Loans to fellow Group undertakings	1,650.0	1,500.0

16 Inventories

	2022	2021
	£m	£m
Raw materials and consumables	47.5	41.3
Work in progress	1.2	1.6
	48.7	42.9

There is no material difference between the carrying value of inventories and their net realisable value.

Inventories consist primarily of fuel, uniforms and materials required for the operation and maintenance of infrastructure.

17 Assets classified as held for sale

	2022	2021
	£m	£m
Balance outstanding at start of year	21.4	15.2
Assets newly classified as held for sale:		
Additions	22.7	-
Investment properties	13.1	(0.3)
Property, plant and equipment	70.4	-
Disposals:		
Investment properties	(26.1)	-
Intercompany transfer	(1.3)	(6.6)
Revaluation		
Investment properties	(4.7)	13.1
Balance outstanding at end of year	95.5	21.4

Notes to the Financial Statements

18 Trade and other receivables

	2022	2021
	£m	£m
Current		
Trade receivables	3.7	3.0
Other tax and social security	13.4	19.2
Grants receivable	5.3	16.7
Capital debtors	48.8	1.8
Interest receivable	32.9	-
Prepayments	4.7	0.9
Accrued income	8.0	4.4
Other receivables	1.8	2.1
	118.6	48.1
Non-current		
Other receivables	18.5	17.4

19 Cash and cash equivalents

	2022	2021
	£m	£m
Cash at bank	6.4	4.6
Cash in hand and in transit	5.7	2.3
	12.1	6.9

Notes to the Financial Statements

20 Trade and other payables

	2022	2021
	£m	£m
Current		
Trade payables	41.2	41.6
Accruals and other payables	133.3	146.6
Project accruals	259.8	245.0
Retentions on contracts	5.2	7.5
Capital grants received in advance	7.3	12.1
Amounts due to fellow Group undertakings	217.8	266.0
Deferred income	0.1	0.5
Salaries and wages	96.3	90.6
Other tax and social security creditors	45.4	44.6
	806.4	854.5
Non-current		
Retentions on contracts	-	4.0
Capital grants received in advance	2.8	2.8
	2.8	6.8

21 Other financing liabilities

	2022	2021
	£m	£m
Current		
Other financing liabilities	6.4	6.2
Non-current		
Other financing liabilities	121.7	128.1

Other financing liabilities comprise deferred capital payments in respect of the acquisition of property, plant and equipment. Gross payments with a nominal value of £151.7m (2021 £162.1m) fall due over the period to March 2033. These have been discounted back at an effective rate of interest of 3.2 per cent (2021 3.2 per cent) to the present value recorded in the table above.

Notes to the Financial Statements

22 Borrowings

	2022	2021
	£m	£m
Non-current		
Amounts due to fellow Group undertakings	8,408.2	8,392.3

Amounts due to fellow Group undertakings

All borrowings due to fellow Group undertakings are repayable on demand with a two year notice period.

No notice has been given on these loans as at the date of signing of these accounts.

The weighted average interest rates on borrowings outstanding at the year end were as follows:

	2022	2021
Weighted average interest rate	3.25%	3.41%

Change in liabilities arising from financing activities

	2022	2021
	£m	£m
Balance at 1 April 2021		
Current	34.1	29.8
Non-current	8,736.6	8,042.6
	8,770.7	8,072.4
Drawdown of borrowings	15.9	719.9
Increase in other financing liabilities	-	-
Repayment of other financing liabilities	(6.2)	(1.7)
Revaluation of right-of-use lease liabilities	(1.5)	-
Repayment of PFI liabilities	(0.4)	(0.2)
Net increase in/(repayment of) right-of-use lease liabilities	(24.0)	(19.7)
As at 31 March 2022	8,754.5	8,770.7
Current	37.4	34.1
Non-current	8,717.1	8,736.6
	8,754.5	8,770.7

Notes to the Financial Statements

23 Service concession agreements

Private Finance Initiative contracts accounted for under IPSAS 32: Service Concession Agreements - Grantor ("IPSAS 32")

The Company was party to the following Private Finance Initiative ("PFI") arrangement where the arrangements have been accounted for in accordance with IPSAS 32 Service Concession Arrangements – Grantor.

British Transport Police (London Underground)

The BTP contract was to provide improved operational infrastructure to support efficient policing of the Jubilee Line Extension and the delivery of the long term policing strategy for the Company. The contract also included ongoing management and maintenance during the contract period. The contract started on 26 March 1999 and ended on 26 March 2022.

The Company retains ownership of the assets constructed on this contract.

The contract required the Company to make a base annual unitary payment which was adjusted for indexation and performance as specified in the contract.

	2022	2021
	£m	£m
PFI finance liabilities		
At 1 April	0.4	0.6
Payments	(0.4)	(0.3)
Interest		0.1
At 31 March	-	0.4

Amounts payable under PFI arrangements cover payments for repayment of capital, payments of interest and payments of service charges. The total amount payable breaks down as follows:

	Payments of interest	Repayment of capital	Payments for service charges	Total amount payable under non-cancellable PFI arrangements
At 31 March 2022	£m	£m	£m	£m
Less than 1 year	-	-	-	-
At 31 March 2021				
Less than 1 year	-	0.4	4.9	5.3

Notes to the Financial Statements

24 Provisions

	2022	2021
	£m	£m
Current		
Provisions	31.4	20.7
Non-current		
Provisions	22.9	19.2

	At 1 April 2021	Utilised in the year	Charge for the year	Reversed during the year	At 31 March 2022
	£m	£m	£m	£m	£m
Movement on provisions					
Contractual provisions	32.9	(0.2)	8.7	(2.1)	39.3
Compensation provision	-	(0.1)	1.4	-	1.3
Environmental harm provisions	1.4	-	6.4	-	7.8
Severance provision	1.4	(1.0)	0.7	(0.4)	0.7
Other provisions	4.2	-	1.0	-	5.2
	39.9	(1.3)	18.2	(2.5)	54.3

	At 1 April 2020	Utilised in the year	Charge for the year	Reversed during the year	At 31 March 2021
	£m	£m	£m	£m	£m
Contractual provisions	51.1	(5.7)	2.1	(14.6)	32.9
Environmental harm provisions	1.4	-	-	-	1.4
Severance provision	4.6	(3.9)	0.7	-	1.4
Other provisions	-	-	4.3	(0.1)	4.2
	57.1	(9.6)	7.1	(14.7)	39.9

Contractual provisions

The Company has provisions for expected contractual claims that arise in respect of disputes arising in the ordinary course of business. The provisions recorded are based on Management's best estimate at the balance sheet date of the likely loss to be incurred through settlement. Reflecting the inherent uncertainty with many legal proceedings and claim settlements, the timing and amount of the outflows could differ from the amount provided. Based on current estimates Management expect that these amounts, which are based on known fact and take account of past experience for similar items, will be settled within the next one to five years. Where material, the provision held is discounted to its present value.

Environmental harm provision

The Company has a constructive obligation to deal with environmental hazards. Provision is made where the Company is likely to incur a cost and a reliable estimate can be made.

Notes to the Financial Statements

Severance provision

The severance provision represents payments to employees leaving the Company by mutual agreement as a result of operational changes and a review of support services. Based on current estimates, Management expects that these amounts will be settled within the next year.

Other provisions

Other provisions relate to the reorganisation of the Company and the net cost of restoring accidentally damaged assets. Based on current estimates, Management expect that these amounts will be settled within the next year.

25 Deferred grants and other contributions

	Note	2022 £m	2021 £m
Deferred grants and other contributions at start of year		9,634.5	9,972.8
Capital grant received during the year		1,022.0	0.8
Third party contributions and other capital grants		9.0	16.4
Released to the income statement:			
To meet the depreciation charge	2	(344.7)	(344.4)
On disposal of property, plant and equipment		(9.4)	(11.1)
Deferred grants and other contributions at end of year		10,311.4	9,634.5

Notes to the Financial Statements

26 Pensions

The Company offers retirement plans to its employees.

Public Sector Section of the TfL Pension Fund

The TfL Pension Fund is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL and on behalf of the Fund's membership.

Every three years, the TfL Pension Fund's Actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure long-term solvency of the Fund. The latest available valuation of the Fund was carried out as at 31 March 2021 by the Actuary, a partner of consulting actuaries Willis Towers Watson, using the projected unit method. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation of the Public Sector Section.

It is not possible to identify the Company's share of the underlying assets and defined benefit obligation of the Public Sector Section of the TfL Pension Fund. This is because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. Thus, in accordance with IAS 19, the Company accounts for contributions to the Public Sector Section as if they were contributions to a defined contribution plan. The Company's contributions to the Fund of £243.5m (2020/21 £246.9m) have been charged to the Income Statement.

A valuation of the Public Sector Section of the TfL Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2022. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the sections' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The defined benefit obligation for the TfL Pension Fund have been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2021. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Fund's pensioners at that date. An allowance was made for future mortality improvements based on the CMI 2021 projections with a long-term improvement rate of 1.25 per cent per annum. No weighting has been given to 2020 or 2021 mortality experience, given the exceptional impact of the coronavirus pandemic on these years.

The IAS 19 deficit on the Public Sector Section of the TfL Pension Fund at 31 March 2022 was £2,997.2m (31 March 2021 £5,372.1m). As stated above, it is not possible to identify the Company's particular share of the deficit. Further details of the Public Sector Section position can be found in the Statement of Accounts of Transport for London.

IAS 19 specifies how key assumptions should be derived and applied. These assumptions are often different to the assumptions adopted by the pension scheme actuary and trustees in determining the funding position of pension schemes.

The IAS 19 valuation is broadly based on the Section's assets being valued at market value at year end, using quoted market prices for the valuation of equities and bonds. The defined benefit obligation is discounted at the rate of return on high quality corporate bonds of equivalent term to the defined benefit obligation.

The fair value of the Fund's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present values of the Fund's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were as shown below.

The figures include the assets and defined benefit obligation of the entire Public Sector Section of the TfL Pension Fund, and include members who are employed by, and whose contributions are made by Transport for London and its

Notes to the Financial Statements

subsidiaries. This is because, as stated above, it is not possible to identify the Company's particular share. Further details of the Public Sector Section's position can be found in the Statement of Accounts of Transport for London.

Actuarial assumptions at 31 March

	2022	2021
Inflation - RPI	**3.50%**	3.15%
Inflation - CPI	**3.10%**	2.75%
Rate of increase in salaries	**3.25%**	3.15%
Rate of increase in pensions in payment and deferred pensions	**3.43%**	3.15%
Discount rate	**2.60%**	1.95%

Fair value of Section assets and liabilities at 31 March

	2022	2021
	£m	£m
Equities	**10,883.6**	10,011.4
Bonds	**3,198.8**	2,607.2
Cash, property and other assets	**166.4**	283.2
Total market value of assets	**14,248.8**	12,901.8
Actuarial value of Section liabilities	**(17,245.8)**	(18,273.9)
Closing Section net obligation	**(2,997.0)**	(5,372.1)

Other schemes

Contributions of £0.3m (2020/21 £0.2m) have been charged to the Income Statements towards various smaller funds.

27 Share capital

	2022	2021
	£m	£m
Share capital issued and fully paid		
430,000,000 ordinary shares of £1 each	-	430.0
1 ordinary share of £1 each	-	-

During the year ended 31 March 2022 429,999,999 ordinary shares of £1 each were cancelled and extinguished reducing the share capital to £1.

Notes to the Financial Statements

28 Financial instruments

Financial risk management

The Company's financial risk management operations are ultimately carried out by the Board of Directors.

The Company's financial instruments comprise trade and other receivables, cash and cash equivalents, trade and other payables, borrowings, PFI, other financing liabilities and right-of-use lease liabilities. The Company finances operations from these financial instruments. The Company does not undertake speculative treasury transactions.

The Company is exposed to a number of financial risks in the normal course of its business operations, the key of which are laid out in the paragraphs below:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet contractual obligations. Credit risk arises from deposits with banks and financial institutions and from the Company's customers and suppliers.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk is low as TfL provides financial support to the Company.

In accordance with the Local Government Act 2003 TfL sets an affordable borrowing limit. As long as the affordable borrowing limit is not exceeded TfL is able to borrow from the Public Works Loan Board and raise debt on capital markets. There is no significant risk that TfL would be unable to raise finance to meet the TfL Group financial commitments.

Market risk

The Company is exposed to market risk in respect of interest rate risk only. The Company is not exposed to any material price or currency risk.

Interest rate risk

The Company has limited exposure to interest rate risk on its financial liabilities as its loans from TfL and Transport for London Finance Limited are at a fixed interest rate.

The Company is exposed to interest rate risk on cash balances and on its right-of-use lease liabilities. This risk is managed by TfL, the Company's ultimate parent.

Sensitivity analysis

Fair value sensitivity analysis for fixed interest instruments

Changes in the market interest rates of financial instruments with fixed interest rates only affect income if these are measured at their fair value. All the Company's financial instruments with fixed rates of interest are accounted for at amortised cost and are not subject to interest rate risk as defined in IFRS 7 Financial Instruments: Disclosures.

Notes to the Financial Statements

Contractual maturity of financial liabilities

Borrowings from TfL and Transport for London Finance Limited are repayable on demand with a two year notice period. Interest on borrowings is paid annually. The contractual maturity of lease liabilities, PFI liabilities and other financing liabilities are as set out in notes 13, 23 and 21 respectively. All other financial liabilities are due within one year, with the exception of certain trade and other payables which are due between 12 and 24 months.

Fair value of financial instruments

The fair value of the Company's lease liabilities and other financial instruments is not materially different to their carrying value.

Capital management

The capital structure of the Company consists entirely of shareholders' equity from the Company's ultimate parent, TfL and its fellow subsidiary, Transport for London Finance Limited. The Company has no external borrowings and no externally imposed capital requirements. It is not anticipated that the Company will require external borrowings for the foreseeable future as it is provided with grants and borrowings from its ultimate parent, TfL, to fund operations and capital projects.

The Company does not have a credit rating but TfL, the Company's ultimate parent which provides financial support to the Company, has a credit rating of A+ with Fitch, A+ with Standard & Poor's and Baa1 with Moody's.

29 Financial commitments

Operating lease commitments - The Company as lessor in third party contracts

The Company has contracted with third party customers for the following future minimum lease receipts.

All leases have been entered into on commercial terms.

	Land and property £m
At 31 March 2022	
Amounts due in less than one year	2.4
Amounts due in years one to five	8.1
Amounts due in more than five years	18.3
	28.8
At 31 March 2021	
Amounts due in less than one year	1.8
Amounts due in years one to five	6.0
Amounts due in more than five years	14.1
	21.9

Notes to the Financial Statements

30 Capital and other financial commitments

a) At 31 March 2022, the Company had capital commitments of £615.2m which are contracted for but not provided for in the Financial Statements (2021 £536.9m).

b) At 31 March 2022, the Company had no other financial commitments which are contracted for but not provided for in the Financial Statements (2021 £nil).

31 Contingent liabilities

There are a number of uncertainties surrounding projects, including potential claims, which may affect the financial performance of the Company. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the Statement of Financial Position, but are monitored to ensure that, where a possible obligation has become probable or a transfer of economic benefits has become probable, a provision is made. It is not currently possible to estimate any likely liability reliably.

The impact of these contingent liabilities on the Company's financial performance, liquidity or financial position is not considered to be material.

32 Related party transactions

During the year none of the Company's directors, key management personnel or parties related to them, have undertaken any material transactions with the Company (2020/21 none). Details of directors' emoluments can be found in note 7.

The Company is a wholly owned subsidiary of TTL, a company controlled by TfL. TfL is a statutory corporation established by section 154 of the Greater London Authority Act 1999 ("GLA Act 1999"). It is a functional body of the Greater London Authority ("GLA") and reports to the Mayor of London. TfL is classified as a government entity in accordance with IAS 24 *Related Party Disclosures* ("IAS 24") and the Company is therefore also classified as a government entity in accordance with IAS 24.

The GLA and its other functional bodies, and all other subsidiaries of TfL, are considered to be related parties of the Company.

The Company has traded with the following related parties that are classified as government entities:

- Grants and loans received from TfL are included in notes 3, 22 and 25.
- Loans made to TTL are included in note 15.
- Interest accrued on loans from TfL and Transport for London Finance Limited as disclosed in note 9.
- Included in operating costs and property, plant and equipment are payments to LUL Nominee BCV Limited, LUL Nominee SSL Limited and to Tube Lines Limited for the upgrade and maintenance of the railway.

For the year ended 31 March	**2022**	2021
	£m	£m
Tube Lines Limited	-	0.1

The Company has completed the following further transactions that are collectively significant transactions with related parties:

- Payment of management fee to TfL and TTL.
- Payments to London Bus Services Limited for rail replacement bus services.
- Income from Rail for London Limited for use of infrastructure.

Notes to the Financial Statements

- Income from Crossrail Limited for provision of construction services.
- Transfer of investment property to TTL Properties Limited, a fellow subsidiary undertaking of TTL (see notes 14 and 17).

These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not government-related.

33 Ultimate parent undertaking

The Company is a wholly owned subsidiary of TTL, a company controlled by TfL which is the ultimate parent undertaking.

The largest group in which the results of the Company are consolidated is that headed by TfL, a statutory corporation. The smallest group in which they are consolidated is that headed by TTL, a company incorporated in England and Wales.

The Board of London Underground Limited has been given assurances of financial support by TfL.

Copies of the consolidated accounts for TfL are available from 5 Endeavour Square, London, E20 1JN.

34 Events occurring after the reporting date

Since 24 June 2022, TfL has been operating under a series of extensions to the previous funding settlement, which provided revenue top up, but no base funding. The last of these expired on 3 August 2022. TfL continued to operate on the assumption of a balanced budget over the full year, on the basis that an acceptable funding settlement with Government would be achieved.

On 30 August 2022, a long-term 20-month funding settlement with wide ranging and complex conditions was agreed with the DfT. This long-term capital funding provides the certainty and stability required to make long-term decisions on infrastructure investments in an effective and efficient manner.

Management do not consider that there has been any post-Balance Sheet event that would require a further adjustment being made to the carrying values at 31 March 2022 as reported in these Financial Statements.