

# **Network Rail Infrastructure Limited**

## **Financial statements**

Year ended 31 March 2019

Company registration number 2904587

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## Officers and professional advisers

### Directors

Andrew Haines (appointed 14 August 2018)  
Mark Carne (resigned 13 August 2018)  
Rob Brighthouse  
Richard Brown  
David Noyes (appointed 6 July 2018)  
Sharon Flood  
Chris Gibb  
Sir Peter Hendy  
Silla Maizey  
Michael O'Higgins (resigned 31 August 2018)  
Mike Putnam  
Bridget Rosewell  
Jeremy Westlake

### Company secretary

Stuart Kelly

### Registered office

1 Eversholt Street  
London  
NW1 2DN

### Independent auditors

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

## Strategic report

The directors present their strategic report of Network Rail Infrastructure Limited (NRIL or the company) for the year ended 31 March 2019.

### What we do

Our core purpose is to provide safe and reliable journeys for passengers and freight. Every day we support 4.8m passenger journeys and the delivery of 200,000 tonnes of goods by freight. We oversee the smooth running of the railway as a whole system and work closely with train operators to deliver train services as reliably and punctually as possible.

Key to this is our role in maintaining and improving the railway network across England, Scotland and Wales. That includes 20,000 miles of track, 30,000 bridges and viaducts as well as thousands of tunnels, signals and level crossings. We manage 20 of the largest and busiest stations in the country, and are also responsible for timetabling and leading the industry's planning for the future of the railway.

For us, this means delivering a safer, more reliable railway, with greater capacity and efficiency than ever before; a railway that connects more people to more places, safely and quickly, and a solid, future-proof foundation for continued growth in the British economy. We drive economic growth, create jobs and enable house building.

### How are we structured

Network Rail has previously been broken down into eight geographical routes and one freight and national operator route who were responsible for operating, maintaining and renewing infrastructure in their area to deliver a safe and reliable railway. Each route operated as a large, complex business in its own right, run by a managing director and a senior leadership team who were accountable for effectively and efficiently delivering for customers and key stakeholders.

The nine routes were then supported by central services that provide a national framework, such as standards and services, where economies of scale or specialist expertise mean it makes sense to provide these from a central point, servicing their customers, the routes. This is the way we were set up in 2018/19.

In 2019/20 we are changing the way we are structured in order to deliver a better service for passengers, freight, customers and stakeholders. More detail on these changes can be found on page 3 under 'Putting Passengers First'.

Network Rail is a public sector company, answerable to the Department for Transport (DfT) and Transport Scotland. Our chair and special director are appointed by the Secretary of State for Transport, and the Board aims to ensure our policies and actions support the wider strategic policies of the Secretary of State and the Scottish Ministers.

We are subject to independent regulation by the Office of Rail and Road (ORR), who set the targets we have to achieve and report regularly on our performance to ensure we are operating efficiently and well, and that we are properly funded.

## Strategic report (continued)

### How we are funded

Network Rail is a not-for-dividend organisation, which means that we don't pay out dividends to shareholders. Any profit we make is re-invested into improving the railway and providing a better service for passengers and freight.

The majority of our income in CP5 came from a mix of direct grants and borrowing from the UK and Scottish governments, payments from the train and freight operators that use our network, and a small amount of income from our commercial property estate. We also work closely with third parties to secure investment for specific projects that will benefit both the third party and passengers and freight. In CP6 Network Rail will not be borrowing to invest in the railway network. DfT will instead grant-fund Network Rail's enhancement expenditure. Grants are contributions made directly by Government without the requirement that they are repaid.

The governments specify what they need from Britain's railway and how much they can afford to contribute during each five-year funding cycle. The ORR then sets a framework that specifies the level of fixed income we are allowed to charge and assesses the amount of money we need to efficiently run our business and deliver our regulated outputs. The five-year funding cycles are called control periods, and this annual report covers the fifth and final year of Control Period 5 (CP5), which ran from 2014 - 2019. On 1 April 2019 we entered Control Period 6 (CP6).

### Putting passengers first

Train performance, our promise to passengers, has been in decline for the last seven years. The introduction of the new timetable in May 2018, which caused widespread disruption to passengers, further undermined public trust in our ability to deliver a reliable service. Across the industry, there is an understanding that things need to change and that now is the time to act.

Between September 2018 and January 2019 Network Rail undertook an extensive listening exercise. We spoke to hundreds of colleagues internally and more than 200 partners across 100 different organisations externally. We wanted to gain a better understanding of what is working and what is not, and the hours we spent doing this were invaluable.

Through this exercise we heard that there are many things that Network Rail does very well. Our safety record, in particular, was credited as a real achievement. However, it was also clear that train performance and the service that we deliver for passengers and freight users has not been good enough and we are often seen as difficult to work with.

We have listened carefully to this feedback and at the end of January the Network Rail Board approved a set of proposals to change the business to one that is unequivocally on the side of passengers and freight users and set up to drive better performance by putting the needs of rail users at the centre of all our thinking and decision making.

## Strategic report (continued)

### Putting passengers first (continued)

We are going to change how we engage with each other and our stakeholders so that we are more focused on our customers and on putting passengers first. We will also be changing how we are organised, devolving further to 14 routes, supported by five Network Rail regions (to which we will devolve capital delivery), two service units and smaller teams in the centre.

By devolving operating capability to a more local level and creating more opportunities to align ourselves closely with train operators and stakeholders, we can drive better train performance and deliver a better service for passengers and freight users. We will use this improved alignment to explore a range of different delivery mechanisms for our routes, including partnerships, concessions and alliances. By establishing Network Rail regions, we will also create organisations that are large enough to absorb further devolution and increase route capabilities locally as well as improve relationships with our stakeholders.

As with any change on this scale, there are risks involved and it will take time. That's why we plan to make these changes in four separate phases. The first phase – the formation of the new routes and regions – taking place in summer 2019. We will make these changes when we are fully ready, rather than rushing them. Our priority will continue to be the safe and reliable running of the network. The proposals are now subject to consultation and safety validation and we expect the whole programme to be complete by the end of 2020.

### The Rail review

In September 2018 the Government launched a review to look at the structure of the whole rail industry. The review, led by independent chair Keith Williams, is well underway and offers the opportunity to help align the whole industry with a clear focus on passenger and freight interests.

The review will consider all parts of the rail industry, including the current franchising system and industry structures, accountability and value for money for passengers and taxpayers. The government will publish a white paper on the review's recommendations in autumn 2019, with the implementation of reforms planned to start from 2020.

Network Rail is working closely with Keith Williams and his team on the review. We believe that we have a once-in-a generation opportunity to transform our industry for the benefit of passengers and freight users, and we will do all we can to make sure that the outcomes of this review are a success.

### Our vision

"A company that is on the side of passengers and freight users; that is easy to engage with and a dependable partner; a company people are proud to work for; instinctively recognised as an industry leader."

In CP6, we are putting passengers and freight users first. For too long the industry has been introspective and focused on engineering excellence, rather than on the service that we provide.

From now on we will be driven by what is collectively agreed are the right outcomes for passengers and freight users. We will cultivate a customer service mindset to ensure that, wherever you work within the business – on the frontline or in a supporting function – you are always thinking about how to best serve passengers and freight users.

## Strategic report (continued)

### Our purpose

“Connecting people to places and goods, driving economic growth.”

We exist to get people and goods where they need to be, at the right time, and to drive economic growth and productivity. The railway connects homes with schools, workplaces, businesses with markets and can help unlock new land for house building. It is part of the social fabric of our nation, connecting people with friends, family and loved ones. The railway also carries goods worth over £30bn each year, bringing food to shops, building materials to construction sites, and fuel to power stations. Even for those who never use a train, the railway makes everyday life possible, in an environmentally sustainable way.

### Our role

“Running a safe, reliable and efficient railway, serving customers and communities.”

Our role is to deliver a railway that people can rely on, with trains that turn up and arrive at their destination on time, and where passengers feel confident that they are safe. We have been allocated £53bn of funding from the Department for Transport (DfT) and Transport Scotland to fulfil this role in CP6. Reliable train performance is what we must deliver on a daily basis in CP6, and what we should and will be held to account for throughout the control period.

### Our strategy

In March 2019 we published our Delivery Plan for CP6 (2019-2024). Our Delivery Plan represents the continued development of our plans, following the publication of our Strategic Business Plan in February 2018. Over the next five years we will spend £42bn on operations, maintenance and renewals on the network to improve punctuality and reliability for passengers and freight. Our Delivery Plan sets out how we will spend this money.

#### **Safe**

Safely running Britain's railways will always be our priority. Throughout CP6, we will continue to make our rail network a safer place to travel, work or live near, with a specific focus on five areas:

- **Passenger safety:** Our plan for 2019-2024 shows how we will reduce the risk of a train accident by a further 10 per cent, building on the 38 per cent reduction in risk that we have achieved over the last five years.
- **Public safety:** Our award-winning work to reduce trespass on the railways and prevent suicides will continue, building on the 14 per cent reduction in suicides on the railway that we have seen in CP5.
- **Level crossing safety:** We will use better techniques and digital technologies to improve the way we maintain and manage our infrastructure and take steps to further reduce risk to the public at our level crossings by 13 per cent.
- **Workforce safety:** We want an injury-free and healthy workforce, so we will continue to improve our lost time injury frequency rate (LTIFR) measure by 54 per cent. We will also increase our work on mental health and resilience, with a target of a 25 per cent reduction in work and part work-related mental health by the end of CP6.

## Strategic report (continued)

### Our strategy (continued)

- **Safety and sustainability:** We are broadening our approach to safety by embracing environmental performance. Making sure the land around the railway (cuttings and banks) is stable is crucial to safety. The stability of these earthworks is often reliant on the way we manage vegetation near the railway. We plan to increase biodiversity on and around the railway, and we will also reduce energy consumption in our operations by 18 per cent over the next five years.

#### **Reliable**

We know that passengers want a reliable train service, so improving performance is a priority in CP6. It is essential that we continue to work together across the rail industry to improve train performance for our passengers. We have therefore set ourselves a target to reduce the number of delayed trains by 12 per cent in 2019/20 and by 28 per cent by the end of the control period.

With a new operating structure and a renewed focus on putting passengers first, we will get train performance back up to the standard that passengers expect and deserve. Our CP6 plans detail how we will work with train operators to reduce the number of trains that are delayed on the network, with a particular focus on the following areas:

- **Assets:** Improving the reliability of the railway infrastructure to reduce the number of incidents that cause disruption.
- **Timetables:** Improving the accuracy of assumptions on which the timetable is based.
- **Operations:** Improving operational processes so that service recovery from incidents is rapid.
- **Information:** Improving the accuracy of train running data to help problem solve, and improve the information passengers receive during disruption.

#### **Efficient**

Passenger numbers have grown significantly over the past 20 years, and as passenger demand has increased, so has the cost of running the railway.

Network Rail needs to become the most efficient company we can be, if we are to play our part in delivering an affordable and reliable railway for the future. Driving greater efficiency is a core part of our vision for CP6.

We have a target of saving £3.5bn between 2019-2024, which we firmly believe we can achieve. Some efficiency savings will come existing through programmes that are already driving efficiency, and through new programmes that began in April 2019. Some of the ways that we will deliver a more efficient railway over CP6 include:

- **Using intelligent infrastructure:** New technology is allowing us to collect improved information about the condition of railway infrastructure, allowing us to predict and prevent problems and better target our maintenance and renewals work.
- **Stabilising our work plan:** Making it easier for both us and our supply chain to plan and deliver work efficiently.
- **Better Every Day:** Better Every Day uses the good ideas from our 40,000 strong workforce to aggregate marginal gains in hundreds of different day to day work activities. If we are dedicated to driving efficiency, it is crucial that we engage the whole organisation and make everyone accountable for everyday improvements. This is already saving millions of pounds.



## Strategic report (continued)

### Our strategy (continued)

- **Making the best use of access:** The amount of time we have to access the railway to undertake work has reduced, so we are taking a number of steps to optimise the way we work when we do have access.
- **Improved contracting strategies:** Working with our supply chain to become an industry client of choice.
- **Making our national functions more efficient:** Delivering savings through IT transformation, increased commercialisation of business services and improved supply chain operations.

### Growing

We want to make it easier for other people to fund, finance or deliver work on the railway. We are implementing a number of reforms that aim to cut red tape, so people can come forward with innovative solutions and new ways of working on the railway. In the years ahead, we will:

- Make it easier for third parties to compete for work.
- Enable third parties to carry out work on the railway directly.
- Make third party funding easier to achieve.
- Attract and reward third party finance and delivery.

Moving into the next control period, we will continue to improve our railway through the delivery of enhancements. We have already radically changed our approach to planning enhancements in recent years, to prevent projects from being committed to before they are properly developed and costed.

From 2019, enhancements will be considered on a case by case basis rather than in one five-year budget. This pipeline approach will be supported by business cases to confirm the strategic fit, value for money, affordability and deliverability of proposals.

### Our people

Achieving our business objectives for CP6 will be hugely influenced by our ability to attract, retain and develop dedicated and committed people. This means becoming one of Britain's best employers, so our Putting People First strategy includes the following four overall objectives:

- To enable and engage our people to do the best job they can, in turn supporting the business to achieve its objectives.
- To create an environment where people can truly say "I'm doing my best work and have the best boss I've ever had".
- To be industry-leading in all we do when it comes to our people.
- To support the embedding of a customer service culture at Network Rail. We have set ourselves ambitious targets to help achieve these objectives during CP6 including:
  - Reducing mental health issues by 25 per cent by prioritising mental health and employee wellbeing.
  - Leading the way in making the industry more diverse and inclusive including by increasing the female workforce to 20 per cent by 2020 and doubling the proportion of women at Network Rail by 2024.

## Strategic report (continued)

### Our strategy (continued)

We will also look to achieve the following outcomes:

- Lead the industry in planning for, and developing, leadership skills to meet the future needs of the railway.
- Make Network Rail a place people are proud to work.
- Be an organisation where people feel safe, looked after and treated with dignity and respect.
- Encourage great leadership and become a place where there is mutual trust and respect between line managers and their teams.

We believe our plan for the next five years will help create an environment which enables our people to reach their full potential and help to deliver the railway that our passengers expect and deserve.

### Our approach to risk management

Our approach to risk management across Network Rail balances the risks associated with our operational environment with identifying opportunities to improve performance through careful acceptance of some risk. We recognise our status as a regulated rail network infrastructure provider and the importance of maintaining essential service provision.

The operational railway is continuously susceptible to changing environmental conditions. The success of the railways in the UK, measured by the growth in passenger numbers, and the continued drive for efficiency mean that we must be both flexible and innovative in our risk mitigation strategies. Our enterprise approach to risk management provides multiple opportunities to review, monitor and enhance mitigations depending on the changing conditions and challenges.

#### Embedded risk management processes

We take an enterprise-wide approach to risk management and have an enterprise risk management (ERM) framework in place for the identification, analysis, management and reporting of all risks to strategic objectives. The purpose of our ERM process is to identify and mitigate risks to the delivery of a safe, reliable, efficient service for passengers and freight users. Our ERM framework supports all areas of the business to recognise both threats and opportunities early. Early recognition of risk allows us to work collaboratively and

proactively with customers, stakeholders and suppliers to manage our extensive portfolio of work better.

Putting passengers first means we need to continuously look at areas where we can improve our service. By careful consideration of risk we can focus on those opportunities that have the greatest potential to increase efficiency and provide a better experience for passengers.

The risk processes within our ERM framework provide tailored approaches for specialist areas such as safety, project management and information security. The use of a standard risk assessment matrix and defined risk appetite enables integration of operational and strategic risks.

Line of sight and links between risks are documented and visualised through our award-winning risk visualisation approach. Strategic risks are linked to our corporate scorecard and business plans are required to document and assess risks to delivery.

## Strategic report (continued)

### Our approach to risk management (continued)

Whilst the ultimate responsibility for risk management rests with the Board, it delegates the more detailed oversight of risk management and internal control principally to the audit and risk committee, which reports the findings of its reviews to the Board. The audit and risk committee receives regular reports from the internal and independent auditors and reviews progress against agreed action plans to manage identified risks. Detailed oversight of safety related risks is delegated to the safety, health and environment committee.

The assessment of risk is informed by the agreed performance targets and the company's risk appetite statements. Each risk is appointed an executive leadership team owner.

#### Network Rail has defined its risk appetite as follows:

Network Rail has no appetite for safety, health or environmental risk exposure that could result in serious injury or loss of life to public, passengers and workforce or irreversible environmental damage. Safety drives all major decisions in the organisation. Network Rail will consider options to reduce safety risk where the business case goes considerably beyond our legal obligation to reduce risk so far as is reasonably practicable.

Where trade-offs are required in order to maintain critical service provision the company will tolerate low to moderate gross exposure to delivery of operational performance targets including network reliability, capacity, asset condition, breakdown in information systems or information integrity.

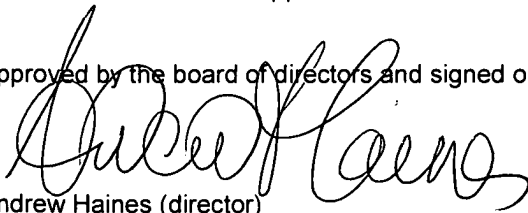
In the pursuit of its objectives, Network Rail is willing to accept, in some circumstances, risks that have high potential for positive return but may result in some financial loss or exposure including a small chance of breach of funding provision as set out in the business plan. It will not pursue additional income generating or cost saving initiatives unless returns are probable (85 per cent CI for income and 60 per cent CI for cost reductions where potential returns are high).

The company wants to be seen as best in class and respected across industry. It will only tolerate low to moderate exposure that may result in short term negative impact on reputation and stakeholder relationships and is easily recoverable, i.e. minimal negative local or industry media coverage, and/or minor employee experience and political impact. This will continue to be balanced by regular positive media coverage at national and local level.

#### Categories of risks (i.e., safety, performance, value) and who manages them

All principal risks are mapped to performance reporting and strategic objectives. The assessment of risk is informed by the performance targets and the company's risk appetite statements. Each risk is appointed an executive committee owner.

Approved by the board of directors and signed on behalf of the board



Andrew Haines (director)  
29 November 2019

## Directors' report

The directors present their audited financial statements of the company for the year ended 31 March 2019.

### Business review

For the year ended 31 March 2019 the company made a pre-tax profit of £26m (2018: £219m pre-tax profit). The tax charge for the year was £48m (2018: credit of £30m).

Details on the company's performance and indicators are detailed in the annual report of Network Rail Infrastructure Limited's ultimate parent company; Network Rail Limited.

### Future activities

The directors do not envisage any changes in the company's principal activities in the foreseeable future.

### Dividends

No dividends were paid in the current year (2018: £nil).

### Disabled employees

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment for disabled persons, having regard to their aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

### Political donations

There were no political donations made in the current or prior years.

### Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements are listed on page 1.

### Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' 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 the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;

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

## Directors' report (continued)

statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

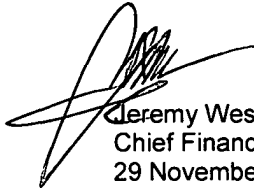
The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for its member to assess the company's performance, business model and strategy.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each director of the company, in office at the time of approval of this report, acknowledges that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he/ she has taken all the steps that he/ she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the board of directors and signed by order of the board



Jeremy Westlake  
Chief Finance Officer  
29 November 2019

## Independent auditor's report

to the Members of Network Rail Infrastructure Limited

### Opinion on financial statements

I have audited the financial statements of Network Rail Infrastructure Limited for the year ended 31 March 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of the loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

### Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of Network Rail Infrastructure Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Network Rail Infrastructure Limited's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

## Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities Statement, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing Network Rail Infrastructure Limited's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Network Rail Infrastructure Limited's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

## Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

### Auditor's responsibilities for the audit of the financial statements (continued)

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Other Information

Directors' are responsible for the other information. The other information comprises information included in the Strategic Report and Directors' Report but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.



## Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

### Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept by Network Rail Infrastructure Limited, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.



**Matthew Kay (Senior Statutory Auditor)**

**12** December 2019

For and on behalf of the

**Comptroller and Auditor General (Statutory Auditor)**

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

## Income statement

for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Revenue	3	6,660	6,587
Net operating costs	4	(5,364)	(4,804)
<b>Operating profit</b>		<b>1,296</b>	<b>1,783</b>
Property revaluation movements and profits on disposal		351	269
<b>Profit from operations</b>	5	<b>1,647</b>	<b>2,052</b>
Finance income	8	11	9
Other gains and losses	9	369	236
Finance costs	10	(2,001)	(2,078)
<b>Profit before tax</b>		<b>26</b>	<b>219</b>
Tax	11	(48)	30
<b>(Loss)/Profit for the year attributable to the owner of the company</b>		<b>(22)</b>	<b>249</b>

# Statement of comprehensive income

for the year ended 31 March 2019

	Notes	2019 £m	2018 £m
<b>(Loss)/Profit for the year</b>		<b>(22)</b>	<b>249</b>
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Gain on revaluation of the railway network	12	<b>2,632</b>	675
Actuarial (loss)/gain on defined benefit pension schemes	27	<b>(31)</b>	221
Tax relating to components of other comprehensive income	22	<b>(443)</b>	(153)
Reclassification of balances in the hedging reserve to the income statement		<b>5</b>	5
<b>Other comprehensive income for the year</b>		<b>2,163</b>	<b>748</b>
<b>Total comprehensive income for the year</b>		<b>2,141</b>	<b>997</b>

## Statement of changes in equity

for the year ended 31 March 2019

	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
<b>Balance at 31 March 2018</b>	<b>160</b>	<b>85</b>	<b>1,393</b>	<b>1,458</b>	<b>(37)</b>	<b>3,507</b>	<b>6,566</b>
Loss for the year						(22)	(22)
Other comprehensive income:							
Revaluation of the railway network	-	-	2,632				2,632
Transfer of deemed cost depreciation from revaluation reserve	-	-	(36)	-	-	36	-
Increase in deferred tax liability on the railway network	-	-	(447)	-	-	-	(447)
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	(31)	(31)
Deferred tax on actuarial loss	-	-	-	-	-	4	4
Transfer between reserves	-	-	13	-	-	(13)	-
Reclassification of balances in hedging reserve to the income statement	-	-	-	-	5	-	5
<b>Total comprehensive income for the year:</b>	<b>-</b>	<b>-</b>	<b>2,162</b>	<b>-</b>	<b>5</b>	<b>(4)</b>	<b>2,163</b>
<b>Balance at 31 March 2019</b>	<b>160</b>	<b>85</b>	<b>3,555</b>	<b>1,458</b>	<b>(32)</b>	<b>3,481</b>	<b>8,707</b>

## Statement of changes in equity (continued)

for the year ended 31 March 2018

	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings (restated)** £m	Total £m
Balance at 31 March 2017	160	85	832	1,458	(42)	3,076	5,569
Profit for the year						249	249
Other comprehensive income							
Revaluation of the railway network	-	-	675				675
Transfer of deemed cost depreciation from revaluation reserve	-	-	3	-	-	(3)	-
Decrease in deferred tax liability on the railway network	-	-	(117)	-	-	1	(116)
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	221	221
Deferred tax on actuarial loss	-	-	-	-	-	(37)	(37)
Reclassification of balances in hedging reserve to the income statement	-	-	-	-	5	-	5
Total comprehensive income for the year:	-	-	561	-	5	182	748
Balance at 31 March 2018	160	85	1,393	1,458	(37)	3,507	6,566

\* Other reserves of £1,458m (2018: £1,458m) include the vesting reserve on privatisation.

# Balance sheet

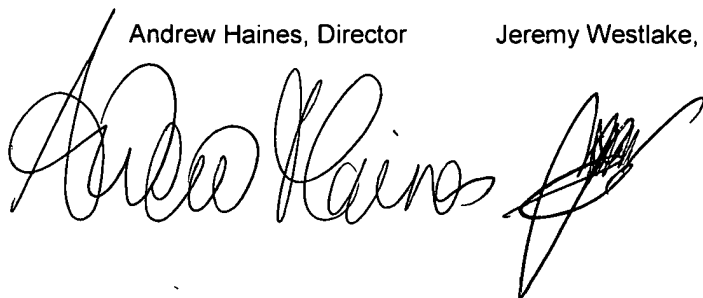
at 31 March 2019

		2019 £m	2018 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment – the railway network	12	71,442	64,117
Investment property	13	232	206
Investment in subsidiaries	16	320	320
Interest in joint ventures		3	3
Loans to subsidiaries	28	65	56
		<b>72,062</b>	<b>64,702</b>
<b>Current assets</b>			
Assets held for sale	15	10	1,134
Inventories	14	221	211
Trade and other receivables	17	1,004	931
Current tax assets		4	4
Cash and cash equivalents		488	739
		<b>1,727</b>	<b>3,019</b>
<b>Total assets</b>		<b>73,789</b>	<b>67,721</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	(3,108)	(2,515)
Borrowings	19	(11,626)	(4,652)
Derivative financial instruments	20	(682)	(1,051)
Provisions	21	(65)	(83)
		<b>(15,481)</b>	<b>(8,301)</b>
<b>Net current liabilities</b>		<b>(13,754)</b>	<b>(5,282)</b>
<b>Non-current liabilities</b>			
Borrowings	19	(43,654)	(47,743)
Derivative financial instruments	20	(1)	-
Other payables	18	(367)	(281)
Retirement benefit obligation	27	(2,566)	(2,311)
Deferred tax liabilities	22	(3,013)	(2,519)
		<b>(49,601)</b>	<b>(52,854)</b>
<b>Total liabilities</b>		<b>(65,082)</b>	<b>(61,155)</b>
<b>Net assets</b>		<b>8,707</b>	<b>6,566</b>
<b>Equity</b>			
Share capital	23	160	160
Share premium account		85	85
Revaluation reserve		3,555	1,393
Other reserve		1,458	1,458
Hedging reserve		(32)	(37)
Retained profit		3,481	3,507
<b>Total equity</b>		<b>8,707</b>	<b>6,566</b>

The financial statements on pages 16 to 78 were approved by the board of directors and authorised for issue on 29 November 2019. They were signed on its behalf by:

Andrew Haines, Director

Jeremy Westlake, Director

Company number:  
2904587


## Statement of cash flows

for the year ended 31 March 2019

	Note	2019 £m	2018 £m
<b>Cash flow from operating activities</b>			
Cash generated from operations	24	3,557	3,541
Interest paid		(1,644)	(1,489)
Income tax received		3	4
<b>Net cash flows generated from operating activities</b>		<b>1,916</b>	<b>2,056</b>
<b>Investing activities</b>			
Interest received		11	9
Purchases of property, plant and equipment		(6,721)	(6,547)
Proceeds on disposal of property		1,458	159
Capital grants received		684	806
Investment in joint ventures		-	49
Loan to subsidiaries		(9)	(17)
Other capital expenditure		-	(1,268)
<b>Net cash used in investing activities</b>		<b>(4,577)</b>	<b>(6,809)</b>
<b>Financing activities</b>			
Movement in intercompany borrowings		(1,432)	(1,839)
Movement in DfT borrowings		3,830	6,713
Increase in bank overdraft		12	9
<b>Net cash generated from financing activities</b>		<b>2,410</b>	<b>4,883</b>
<b>Net movement in cash and cash equivalents</b>		<b>(251)</b>	<b>130</b>
Cash and cash equivalents at beginning of the year		739	609
<b>Cash and cash equivalents at end of the year</b>		<b>488</b>	<b>739</b>

## Notes to the financial statements

for the year ended 31 March 2019

### 1. General information

Network Rail Infrastructure Limited (NRIL) is a private company incorporated and domiciled in Great Britain and registered in England and Wales under the Companies Act 2006.

The company registration number is 2904587. The company's registered office is situated at 1 Eversholt Street, London, NW1 2DN, United Kingdom.

The company's principal activities are detailed in the strategic report on pages 2 to 9.

The company's parent is Network Rail Holdco Limited, a private company incorporated in Great Britain and registered in England and Wales. The company's ultimate parent company is Network Rail Limited, a company limited by guarantee incorporated in Great Britain and registered in England and Wales.

Network Rail is organised as a single operating segment for financial reporting purposes.

### 2. Accounting policies

#### Basis of preparation

The company is a wholly-owned subsidiary of Network Rail Limited, its ultimate parent, company, and is included in the consolidated financial statements of Network Rail Limited which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union, and therefore comply with Article 4 of the European Union International Accounting Standard regulation, and in accordance with interpretations of the IFRS Interpretation Committee.

The financial statements have been prepared under the historical cost basis, except for the revaluation of the railway network to a value determined using an income approach, the revaluation of investment properties, the measurement of certain financial assets and liabilities at fair value through profit and loss (FVTPL), and the measurement of derivative financial instruments at fair value. The principal accounting policies adopted by the directors are set out below. The policies have been consistently applied to the years presented.

#### Adoption of new and revised standards

The accounting policies adopted in this set of financial statements are consistent with those set out in the annual financial statements for the year to 31 March 2018; except for the change in accounting policies noted below:

The following accounting standards have become effective in the current year and were adopted and applied by the company:

- i) IFRS 15 'Revenue from Contracts with Customers'. In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016), effective for periods commencing 1 January 2018. IFRS 15 establishes a comprehensive framework for determining when revenue should be recognised and how it should be measured. In adopting IFRS 15, the Company has elected to adopt in line with the modified retrospective method which does not require comparative reporting figures to be restated.



## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Adoption of new and revised standards (continued)

##### i) IFRS 15 'Revenue from Contracts with Customers' (continued)

The Company's accounting policies for its revenue streams are disclosed in detail under the heading 'Revenue recognition'. Apart from providing more extensive disclosures on the Company's revenue transactions (refer to note 3), trade and other receivables (note 17) and trade and other payables (note 18), the application of IFRS 15 has not had any impact on the financial position and/or financial performance of the Company. All relevant revenue streams have historically, under IAS 18, been recognised on satisfaction of contractual obligations, that meet the definition of 'performance obligations' under IFRS 15. For this reason, no retrospective adjustments to retained earnings were made under the modified retrospective method of transitioning to IFRS 15. The grant income that NRIL receives does not fall under IFRS 15; as such we have continued to recognise grant income in line with IAS 20 Accounting for Government Grants.

ii) IFRS 9 'Financial Instruments'. This is a new standard that addresses the classification, measurement and recognition of financial assets and liabilities. It is effective for accounting periods starting after 1 January 2018 and therefore adopted in NRIL's current annual accounts.

##### Financial assets

The Company has assessed the impact on financial assets and with the exception of derivatives held at fair value through profit or loss, they will continue to be held at amortised cost as they are held-to-collect rather than traded assets and meet the 'solely payments of principal and interest' test.

As financial assets, the receivables disclosed in the Company accounts are subject to the new "Expected Credit Loss model." The Company's exposure to credit risk is limited largely to the property rental income, and no significant increase in credit risk has materialised. See 'Impairment of financial assets' accounting policy and Note 17: Trade and other receivables for more details. The impact on the classification of financial assets, as a result of transitioning from IAS 39 to IFRS 9 is as follows:

- Cash and cash equivalents - reclassified from 'loans and receivables' to 'at amortised cost' under IFRS 9
- Trade and other receivables - reclassified from 'loans and receivables' to 'at amortised cost' under IFRS 9
- Derivative financial instruments – unchanged from 'fair value through profit or loss' under IFRS 9

##### Financial liabilities

The Company has assessed the impact on financial liabilities and with the exception of derivatives held at fair value through profit or loss, they will continue to be held at amortised cost. The impact on classification of financial liabilities, as a result of transitioning from IAS 39 to IFRS 9 is:

- Loans and debt - unchanged from 'at amortised cost' under IFRS 9 (refer to 'Debt' accounting policy for further detail)
- Trade and other payables - unchanged from 'at amortised cost' under IFRS 9
- Derivative financial instruments – unchanged from 'fair value through profit or loss' under IFRS 9

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Adoption of new and revised standards (continued)

##### Hedge accounting

With regards to hedge accounting, almost all the hedged events have now occurred and there will be no new hedging programme. The company has opted to continue to apply the hedge accounting requirements of IAS 39 until the hedging programme is finalised.

The following accounting standards have not been early adopted by the company but will become effective in future years and are considered to have a potentially material impact on the company:

##### IFRS 16 'Leases'

IFRS 16 'Leases' establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard is effective for accounting periods starting after 1 January 2019 and will therefore be effective from 1 April 2019 in NRIL's accounts.

NRIL intends to apply the modified retrospective transition approach and will not restate comparative amounts for the year prior to first adoption. This transition method allows for the lease liability to be based on the remaining payments, and then sets the right-of-use asset as an amount equal to lease liability (adjusted for any accrued or prepaid amounts recognised under IAS 17). Therefore, there is no impact on equity at the date of initial application.

The following other exemptions will be elected with the adoption of IFRS16:

- Elect not to measure leases that terminate within 12 months of the date of transition to IFRS16.
- Elect not to measure leases where the underlying asset is of low-value (<£5,000).
- Exclude initial direct costs from the measurement of right-of-use assets.
- Elect to use hindsight to determine lease term (e.g. in determining the lease term if options exist).
- Elect to take forward the previous identification of a lease applying IAS 17 and IFRIC 4 at the start of the relevant accounting period, also known as 'grandfathering'

The standard will require lessees to account for all leases on their balance sheets, including those which had previously been treated as operating leases and accounted for in the Income Statement as an "in-year" expense. Had this standard been adopted in 2018-19 NRIL's assets and liabilities would have been grossed up by approximately £390m and the loss for the year would have been increased by approximately £10m.

The following key judgements have been made by management regarding both the recognition as well as calculation of leases under IFRS 16:

- The marginal rate of borrowing will be used to calculate the right of use asset and lease liability unless the implicit rate can reliably be determined in the contract.
- Where practically possible lease components will be separated from the larger contracts to calculate the right of use asset. This is especially notable in contracts which contain embedded leases.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Adoption of new and revised standards (continued)

The following accounting standards have not been early adopted by the company but will become effective in future years:

##### **IFRS 17 Insurance Contracts**

IFRS 17 has been adopted by the IASB for periods beginning on or after 1 January 2021 and has not currently been endorsed by the EU. Management have not yet considered the impact of the standard on Network Rail.

#### Business segments

No segmental analysis is provided because the company operates one class of business; that of managing the national rail infrastructure and undertakes that class of business in one geographical segment, Great Britain.

#### Going concern

The company has considerable financial resources together with long-term contracts with a number of customers and suppliers. NRIL does not expect to undertake any new borrowing in the next 12 months. Instead its activities will be largely funded by grants from the Department for Transport and revenue from customers. NRIL has secured a £32.3bn loan facility with the Department for Transport (DfT), which it intends to draw upon to specifically refinance its existing debt with DfT legacy commercial borrowing. This facility remains within its parameters.

NRIL has eight separate grant agreements in place with DfT and Transport Scotland (TS) to fund activities in the next 12 months. These grants are: - with DfT - Network Grant; Enhancements Grant; British Transport Police Grant; Financing Costs Grant for DfT interest; Financing Costs Grant for external interest (bonds and swaps); and Corporation Tax Grant - with TS - Network Grant and Enhancements Grant.

Business plans and financial models are used to project cash flows and monitor financial risks and liquidity positions, forecast future funding requirements and other key financial ratios, including those relevant to our network licence. Analysis is undertaken to understand the resilience of the company and its business model to the potential impact of the company's principal risks, or a combination of those risks. This analysis takes account of the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. The board considers the likely effectiveness of such actions through regular monitoring and review of risk management and internal control systems.

In addition, Note 26 to the financial statements includes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Going concern (continued)

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

#### Revenue recognition

The company recognises revenue from the following major sources:

- Grant income – recognised in accordance with IAS 20;
- Franchised network access – recognised in accordance with IFRS 15;
- Freight revenue - recognised in accordance with IFRS 15;
- Property rental income – recognised in accordance with IAS 17/IFRS15; and
- Other income – recognised in accordance with IFRS 15.

Network Rail's grant income is recognised in line with IAS 20 'Accounting for Government Grants' – refer to 'Grants' accounting policy.

Network Rail's recognition approach is to recognise franchised network access and freight revenue each period in the financial year.

Performance obligations are based upon fixed and variable volume access to the railway during the relevant year. Performance obligations are satisfied by providing track access over time as per agreement with the train operating companies. There are no significant judgments applied to determine whether performance obligations have been satisfied. The input method is applied based on time lapsed.

Network Rail recognises property rental income over time as the tenant receives and consumes the benefits throughout the contract (and financial year). Performance obligations are based upon making the lease available to the customer over a set period of time. Performance obligations are satisfied by providing access to leased property along with fulfilment of lease terms relevant to the lessor. There are no significant judgments applied to determine whether performance obligations have been satisfied. The input method is applied to recognise revenue over time, based on time lapsed.

Other income consists of Non Franchised fixed and variable network access which will be recognised using the same policy as for Franchised Network access.

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue represents amounts derived from the management and provision of assets for use in the operation of the railway and property rental income net of value added tax. Amounts recognised take account of any performance penalties or bonuses in respect of the year. The performance penalties and bonuses are estimated in each 4 week period based on that period's performance and reflect management's best estimate of the amounts due.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Revenue recognition (continued)

Revenue measurement has remained unchanged upon transitioning to IFRS 15, and includes supplements to the access charges and bonuses receivable from, less penalties and rebates payable to, customers and stakeholders. Operating expenditure includes additional contract amounts and bonuses payable to, less penalties receivable from, suppliers and the Office of Rail and Road.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Separate accounting policies have not been adopted for revenue related contract assets / liabilities (deferred income), as the impact of IFRS 15 classification, recognition and measurement is insignificant.

#### Grants

Grants and other contributions received towards the cost of property, plant and equipment are deducted from the fair value of assets which the grant funding relates to, and released to the income statement over the estimated useful economic life of the rail network. Revenue grants earned for the management and provision of railway network assets are credited to the income statement in the period to which they relate.

#### Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### The company as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases. Rental income from operating leases and initial direct costs are recognised on a straight-line basis over the term of the relevant lease.

##### The company as lessee

Assets held under finance leases are recognised at their fair value as assets of the company or, if lower, at the present value of the minimum lease payments. Each is determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs (see below). Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange prevailing at the balance sheet date. Foreign currency amounts are initially recorded at the rates of exchange prevailing on the dates of the transactions. Individual transactions denominated in foreign currencies are translated into sterling at the exchange rates prevailing on the dates payment takes place. Gains and losses arising on retranslation are included in the income statement for the period and are classified as either operating or financing depending on the nature of the monetary item giving rise to them.

#### Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take 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 substantially ready for their intended use.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

#### Operating profit

Operating profit is stated before finance income, finance costs, other gains and losses, and revaluation movements and profits on disposal of properties.

For the year ended 31 March 2019, the income statement has been simplified by removing the three column format.

#### Retirement benefit costs

Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

For the defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with full actuarial valuations being carried out at least every three years and updates to these valuations carried out in intervening years.

The company's share of the actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of comprehensive income. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan. Further details on the retirement benefit schemes are provided in note 27.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

The company reflects its share of the obligation in the financial statements. The IAS 19 deficit, service cost and interest cost therefore represent 60 per cent of the total for each of the schemes. Further details on the retirement benefit schemes are provided in note 27.

#### Tax

The tax expense represents the sum of the current tax payable and deferred tax. The company's current tax liability is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date. Current taxes are based on the taxable results of the company and calculated in accordance with tax rules in the United Kingdom.

Deferred tax is the tax expected to be payable or recoverable on the temporary differences that arise when tax authorities recognise and measure assets and liabilities with rules that differ from those of the consolidated financial statements. Deferred taxes are calculated under the balance sheet liability method at the rate of tax expected to prevail, subject to the rate being enacted or substantively enacted by that date, when the temporary differences reverse.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised on all deductible temporary differences to the extent that it is probable that there will be taxable profits available against which the temporary timing differences can be utilised.

Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity. In this case the deferred tax is also dealt with in equity.

#### Investment in subsidiaries and joint ventures

Investments in subsidiary undertakings and joint ventures are stated at cost plus incidental expenses less any provisions for impairment. Where an event has occurred that gives rise to doubt about the recovery of the carrying value an impairment assessment review is performed by management.

#### Assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held for sale the assets are re-measured in accordance with the accounting policies for the asset category. Subsequently, the assets are held at the lower of carrying value and fair value less costs to sell. Any impairment loss on a disposal group is recognised immediately in the income statement. For the assets held for sale in these financial statements NRIL has opted to use the valuation as at 30 September 2017 as a proxy for the value of the assets immediately before classification date.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Property, plant and equipment – the railway network

The company has one class of property, plant and equipment, being the railway network. This is the integrated network that the company uses to deliver the operation, maintenance and renewal of Great Britain's national rail infrastructure.

##### Valuation methodology

The railway network is carried in the balance sheet at its fair value. As there is no active market in railway infrastructure assets, the company has derived the fair value of the railway network using an income approach. The income approach assesses the discounted future cash flows that are expected to be generated by the railway network, including an assessment of under and outperformance against the current 5-year regulatory determination. This valuation is carried out twice a year and revaluation gains and losses are reflected in other comprehensive income.

##### Depreciation

The railway network is depreciated on a straight-line basis over its estimated remaining weighted average useful economic life. The estimated remaining weighted average useful economic life of the network is currently 40 years (2018: 40 years). The remaining useful economic lives of network assets are estimated annually, with external verification of the valuation and asset lives carried out where required.

##### Capitalisation of operating costs

In line with IAS 16 Property, Plant and Equipment, all directly attributable costs necessary to deliver the investment programme are capitalised. Employee and other associated costs are capitalised if they arise directly as a result of delivering the investment programme.

##### Presentation of capital grants

Grants and other contributions received towards the cost of property, plant and equipment are deducted from the fair value of assets which the grant funding relates to. See Note 12. Property, plant and equipment – the rail network for detail of the gross and net values of capital grants included in the property, plant and equipment balance.

#### Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains and losses from changes in the fair value of investment property are included in the income statement for the period in which they arise.

#### Research and development

Research and general development expenditure is charged to the income statement as incurred. Expenditure on the development of specific projects is capitalised only if all of the following conditions are met:

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits
- the development cost of the asset can be measured reliably.



## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Inventories

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.

#### Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

#### Financial assets

##### Financial assets at amortised cost

Financial assets are classified as at amortised cost where the business model is to hold assets in order to collect contractual cash flows, and the cash flows consist solely of payments of principal and interest (SPPI) on the principal amount outstanding.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts, recognised in the income statement.

##### Financial assets at FVTPL

Financial assets are classified as at FVTPL where the asset does not meet the amortised cost criteria, and, if doing so, eliminates or significantly reduces or eliminates a measurement or recognition inconsistency. Gains and losses arising from changes in fair value of these assets are recognised in profit or loss for the period.

##### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets at FVTPL are stated at fair value with any resultant gain or loss recognised in the income statement. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been reduced.

The carrying amount of the financial asset is reduced by the impairment loss for all financial assets with the exception of trade receivables, which are reduced by allowances for irrecoverable amounts. As financial assets, trade receivables are subject to the "Expected Credit Loss model" under IFRS 9. The company's exposure to credit risk is limited largely to property rental income, and no significant increase in credit risk has materialised. Therefore, the company has continued to recognise 12 month expected losses that are updated at each reporting date, in the form of allowances for irrecoverable amounts, which approximate the expected losses for the next 12 month period.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement. The reversal is only made to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Cash and cash equivalents

Cash and cash equivalents comprise bank balances held by the company, commercial paper and money market deposit investments at varying rates. The carrying amount of these assets approximates their fair value.

#### Financial liabilities

Financial liabilities are presented according to the substance of the contractual arrangements entered into.

#### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is a derivative financial liability or designated at FVTPL at initial recognition.

A financial liability is designated as FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise exist.

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or expire.

#### Debt

Debt instruments not designated at FVTPL are initially measured at fair value, net of discount and direct issue costs, and subsequently recognised at amortised cost using straight line amortisation as a proxy for the IFRS 9 effective interest rate method. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

#### Trade payables

Trade payables are initially recognised at fair value and subsequently at amortised cost. They are ordinarily not interest bearing.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Derivative financial instruments and hedge accounting

The company's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The company uses interest rate swaps and foreign exchange forward contracts to hedge these exposures. The use of financial derivatives is governed by the company's policies approved by the treasury committee of the board, which provide written principles on the use of financial derivatives.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Derivatives are presented on the balance sheet in line with their maturity dates.

The company designates certain hedging instruments as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Some derivatives, while complying with the company's financial risk management policies, do not qualify for hedge accounting and are therefore classified as held for trading. Changes in the fair value of derivative financial instruments that do not qualify for cash flow hedge accounting are recognised in the income statement as they arise.

Cashflow hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised or no longer meets the criteria for hedge accounting. Where the hedging instrument no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective remains in equity until the forecast transaction occurs.

In the instance where cashflow hedge accounting is discontinued since the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period where the hedge was effective is recognised in the income statement.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Derivative financial instruments and hedge accounting (continued)

Embedded derivatives within a financial asset host contract are not separated from the host contract, instead, the whole contract in its entirety is accounted for as a single financial instrument.

Embedded derivatives within a host contract that is a financial liability are separated from the host contract and accounted for as a derivative financial instrument when economic characteristics of the embedded derivative and host are not closely related, an identical instrument (with the same terms) would meet the definition of a derivative, and the entire contract is not measured at fair value through profit or loss. Gains or losses from the movement in fair value of the financial instrument are reported in the income statement.

Note 20 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in the statements of changes in equity and in the statements of comprehensive income.

#### Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income, and the ineffective portion is recognised immediately within 'other gains and losses' in the income statement.

#### Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, and it is probable that the company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

## Notes to the financial statements

for the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Critical accounting judgements and key sources of uncertainty

(i) Property, plant and equipment – the rail network: the estimate of the fair value of the rail network is based on an income approach using the regulatory asset base, which equates to the discounted future cash flows associated with the network, adjusted for the net present value of any variances from the Office of Rail and Road's determination using the building block model of regulation.

The most significant judgement underpinning the valuation is that the regulatory framework and associated cash flows remain sufficiently stable and robust to form the basis of a third party valuation. Management assess that based on the current regulatory environment, an investor could reasonably expect to recover the RAB value through the revenue deriving from future amortisation allowances and the regulatory return thereon. In its assessment management has considered the amendments to the regulatory framework that are set out in the regulator's determination for Control Period 6 (2019-2024), and noted that although the regulated asset base will cease to be a building block in the determination of the company's revenue requirement, the link between income and the regulated asset base would be reinstated in the event that the rail network asset were transferred to a private owner.

Management have also considered whether the portfolio of assets held for sale should continue to be deducted against the RAB in arriving at the fair value of the rail network, and based on an assessment of likely regulatory action in the event of a sale, have concluded that this remains appropriate. Further detail on this and other key judgements applied in the valuation are set out in Note 12.

The key source of estimation uncertainty within the valuation is the assessment of future performance against the regulatory determination which is discussed in more detail in Note 12.

Whilst not affecting the fair value of the asset recognised at the balance sheet date, management's assessment of the remaining life of the asset affects the depreciation that is charged on the asset, is also an area of estimation uncertainty. IAS 16 requires that management regularly review asset lives on at least an annual basis and that that depreciation is charged on a systematic basis that reflects the way the asset is consumed. In March 2019 Network Rail produced a detailed and rigorous depreciated replacement cost (DRC) valuation of the rail network for inclusion in DfT's group accounts. In preparing these financial statements management reviewed the weighted average remaining asset lives as produced in the DRC valuation and concluded that it is still appropriate to use 40years as the weighted average remaining life.

# Notes to the financial statements

for the year ended 31 March 2019

## 2. Accounting policies (continued)

**Cost of Work Done (COWD):** The additions to Property, plant and equipment are valued using an estimate of the cost of work done in the year to 31 March. To the extent that the COWD is greater than the invoiced amount, a PPE addition and 'other payable' (Note 18) are recognised on the basis of expected amounts required to settle contractual obligations. COWD assessments are predominantly based on information readily available to project managers on the status of works, but some estimation uncertainty is involved in the year-end measurement, in respect of the evaluation of how contractual dispute positions are likely to resolve, and in measuring the value of works performed at the precise year end date.

(ii) **Investment property** – an element of the investment property portfolio valuation is determined using the Beacon method. Jones Lang LaSalle provided their assessment of yields for 18 classes of property and areas in the portfolio. These are then used to produce income multipliers and applied to the rental streams from each of the individual properties in the portfolio to form an overall valuation. For investment property transferred to assets held for sale this is also the inherited method of valuation. The transfer occurred on 24 November 2017; the valuation as at this date is regarded as the carrying value of these assets and the frozen ceiling valuation for assets held for sale. Further details are set out in Note 13.

(iii) **Retirement benefit obligations** – the company recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 (Revised) '*Employee Benefits*'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy among others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 26. The total contribution rate payable under the Railway Pension Scheme (RPS) and the Career Average Revalued Earnings (CARE) scheme is normally split in the proportion 60:40 between the company and the members, respectively. The company reflects its share of the contribution in the financial statements.

(iv) **Taxation** – the company recognises and discloses its deferred tax assets in accordance with IAS 12. Where it is considered to be probable that deferred tax assets can be matched to future taxable profits then deferred tax assets are recognised, or offset against the overall deferred tax provision as appropriate. This evaluation requires significant judgements to be made, including the uncertainty of the availability of future taxable profits. Further details are set out in Note 11.

## Notes to the financial statements

for the year ended 31 March 2019

### 3. Revenue

	31 March 2019 £m	31 March 2018 £m
Grant income	4,125	4,480
Franchised network access	2,129	1,715
Freight revenue	58	53
Property rental income	316	305
Other income	32	34
<b>Revenue for the year</b>	<b>6,660</b>	<b>6,587</b>

The effect of the performance regimes was a net loss of £439m (2018: net loss of £232m) which led to a reduction in revenue of the respective amount.

The company has assessed its revenue recognition in accordance with IFRS15 and has deemed that it derives the vast majority of its revenue over-time. Revenue recognised at a point in time is not material in the financial year and therefore is not disclosed separately.

Grant income, franchised network access, freight revenue and property rental income, recognised in line with the accounting policies, were recognised upon fulfilment of the contractual performance obligations, by providing track access or access to rental property, in line with the terms of the existing customer contracts. Recognition is over time, and the input method, specifically time lapsed, is used as the basis for revenue recognition. There are no alternative performance obligations identified for individual contracts within the disaggregated revenue streams.

There are no recognised contract assets, as defined by IFRS 15, that relate to recognised revenue disaggregated in the above table.

### 4. Net operating costs

	31 March 2019 £m	31 March 2018 £m
Employee costs (see note 6)	2,561	2,418
Own costs capitalised	(1,013)	(976)
Other external charges (including maintenance costs)	2,411	2,049
Other operating income and recoveries	(268)	(234)
<b>Net operating costs before depreciation and amortisation</b>	<b>3,691</b>	<b>3,257</b>
Depreciation (see note 12)	1,810	1,639
Capital grants amortised	(137)	(92)
<b>Net operating costs</b>	<b>5,364</b>	<b>4,804</b>

## Notes to the financial statements

for the year ended 31 March 2019

### 5. Profit from operations

Total profit from operations is stated after charging/(crediting):

	31 March 2019 £m	31 March 2018 £m
Profit on sale of properties	(311)	(78)
Increase in the fair value of investment properties	(35)	(116)
Cost of inventories recognised as an expense	219	190
Dividends from investments	(5)	(75)
Write down of inventories recognised as an expense	3	1
<b>Amounts payable to auditors</b>		
Fees payable to the company's auditors for the audit of the company's financial statements	0.02	0.02
Fees payable to the company's auditors for other audit related services:		
- The audit of the company's subsidiaries and consolidated financial statements of the parent company	0.50	0.41
- Regulatory accounts audit and interim review	0.07	0.08
<b>Total amounts payable to auditors</b>	<b>0.59</b>	<b>0.51</b>

In the financial years ended 31 March 2019 and 2018 there were no fees payable to the company's auditors in respect of non-audit related services. In addition to the audit fee information given in the table the company pays £0.1m for the audit of subsidiaries that are not performed by the group auditor. The company bears the cost of the statutory audit fees for the entire Network Rail group of companies.



## Notes to the financial statements

for the year ended 31 March 2019

### 6. Employee costs

The monthly average number of employees (including executive directors) was:

	31 March 2019	31 March 2018
Management and operation of the railway	40,268	39,370

	31 March 2019 £m	31 March 2018 £m
<b>Their aggregate remuneration comprised:</b>		
Wages and salaries	2,050	1,928
Social security costs	227	215
Defined contribution pension costs (see note 27)	20	19
Defined benefit pension costs – current service costs (see note 27)	257	256
Defined benefit pension costs – past service costs (see note 27)	7	-
	<b>2,561</b>	<b>2,418</b>

On 26 October 2018 the High Court ruled on the Lloyds case that Guaranteed Minimum Payment ("GMP") equalisation is required. We have carried out calculations following the ruling to determine the appropriate accounting reserve to reflect the impact of GMP equalisation and estimate that the impact would be an increase in the Section's liabilities of 0.1%. This impact has been recognised as a past service cost in the 2018/19 Income Statement.

### 7. Directors' remuneration

	31 March 2019 £m	31 March 2018 £m
Total emoluments	2	2
Post employment benefits - contributions to money purchase pension schemes	0	0
	<b>2</b>	<b>2</b>

During the year ended 31 March 2019, the key management personnel were comprised of the chair of the non-executive committee and three executive directors.

The aggregate short-term employee benefits payable to these directors totalled £1.4m (2018: £1.5m) and aggregate post-employment benefits payable totalled £0.06m (2018: £0.1m). No other benefits were paid to these individuals. For further details see the directors' remuneration report in the Network Rail Limited group accounts.

## Notes to the financial statements

for the year ended 31 March 2019

### 8. Finance income

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Interest receivable on Finances and deposits (included in borrowings)	11	9
	11	9
Finance income earned on financial assets analysed by category of asset is as follows:		
Loans and receivables (including cash and bank balances)	11	9
	11	9

### 9. Other gains and losses

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Gain on fair value of embedded derivative	369	236
Gain on fair value of external derivative financial instruments	-	-
<b>Total other losses</b>	<b>369</b>	<b>236</b>

No other gains and losses have been recognised in respect of loans and receivables other than those disclosed in this note. No gains or losses have been recognised on financial liabilities measured at amortised cost other than those disclosed in Note 10.

## Notes to the financial statements

for the year ended 31 March 2019

### 10. Finance costs

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Interest on bank loans and overdrafts	3	-
Finance cost on loan issued by Department of Transport	669	546
Finance cost on intercompany borrowings	1,191	1,368
Defined benefit pension interest cost (see note 27)	55	57
Debt Issuance Programme financial indemnity fee	266	281
<b>Total borrowing costs</b>	<b>2,184</b>	<b>2,252</b>
Less: capitalised interest	(183)	(174)
<b>Total finance costs</b>	<b>2,001</b>	<b>2,078</b>

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is financed by the company. The average rate used during the year was 3.7 per cent (2018: 4.5 per cent).

# Notes to the financial statements

for the year ended 31 March 2019

## 11. Tax

The tax credit is made up as follows:

	Year ended 31 March 2019	Year ended 31 March 2018
<b>Current tax:</b>		
Corporation tax credit	(1)	(3)
Less advance corporation tax set-off	-	-
Corporation tax liability	(1)	(3)
Adjustment in respect of prior years	(3)	1
<b>Total current tax charge/(credit)</b>	<b>(4)</b>	<b>(2)</b>
<b>Deferred tax:</b>		
Current year charge	50	(6)
Effect of rate change	-	-
Adjustment in respect of prior years	2	(22)
<b>Total deferred tax charge/(credit)</b>	<b>52</b>	<b>(28)</b>
<b>Total tax charge/(credit)</b>	<b>48</b>	<b>(30)</b>

The tax charge/(credit) for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Profit before tax	26	219
Tax charge on profit 19 per cent (2018: 20 per cent)	5	42
Adjustment in respect of prior years	(1)	(20)
Effect of rate change	-	-
Expenditure/(Income) not subject to tax	4	(29)
De-recognition of deferred tax assets – current year	40	-
Utilisation of tax losses previously written off	-	(23)
<b>Total tax charge/(credit) for the year</b>	<b>48</b>	<b>(30)</b>

## Notes to the financial statements

for the year ended 31 March 2019

### 11. Tax (continued)

Under IAS12 deferred tax assets can only be recognised where it is probable that taxable profits will be available against which the deferred tax asset can be utilised. As in 2018, it remains improbable that Network Rail will return to a level of taxable profits that will allow for recognition of deferred tax asset relating to the trading losses carried forward. Additionally, whilst taxable income does not exceed allowable deductions in the year, NRIL claims only the capital allowances sufficient to make the necessary claims for group relief and available tax credits.

Deferred tax at 31 March 2019 is calculated at a rate of 17 per cent (2018: 17 per cent). The amount at which temporary differences crystallise is sensitive to the decisions on future tax laws to be taken by Parliament. A 1% movement in the rate to be applied from 2020-21 would, at the point the change was substantially enacted, result in a variation of approximately £177m in the net deferred tax liability.

UK corporation tax is calculated at 19 per cent (2018: 20 per cent). Further reductions to the UK tax rate have been enacted which reduced the rate to 19% with effect from 1 April 2018 and to 17% by 1 April 2020.

The company has £36.9m (2018: £36.9m) of surplus ACT carried forward. No deferred tax asset has been provided in respect of this amount.

## Notes to the financial statements

for the year ended 31 March 2019

### 12. Property, plant and equipment – the railway network

	Assets £m	Capital grants £m	Carrying Value £m
<b>Valuation</b>			
<b>At 31 March 2017</b>	62,706	(3,525)	59,181
Additions	6,634	(822)	5,812
Transfers from investment property	(3)	-	(3)
Depreciation charge for the year	(1,639)	91	(1,548)
Revaluation in the year	675	-	675
<b>At 31 March 2018</b>	<b>68,373</b>	<b>(4,256)</b>	<b>64,117</b>
Additions	7,043	-	7,043
Capital grants additions	-	(637)	(637)
(Depreciation charge)/ grant amortisation for the year	(1,810)	97	(1,713)
Revaluation in the year	2,632	-	2,632
<b>At 31 March 2019</b>	<b>76,238</b>	<b>(4,796)</b>	<b>71,442</b>

Given the economic and physical interdependency of the assets comprising the rail network, the company has concluded that the rail network is considered as a single class of asset. The rail network is carried at its fair value.

As there is no active market in railway infrastructure assets, the company has derived the fair value of the rail network using an income approach. Under this approach the cash flows that a network licence holder expects to generate from the rail network are assessed using a market rate of return. This valuation is carried out twice a year and revaluation gains and losses are reflected in other comprehensive income.

The independent rail regulator, the Office of Rail and Road (ORR), has stated (in the 2018 periodic review final determination:

Supplementary document – financial framework) that a private network licence holder of the railway network would have its revenue requirement determined using the building block model of regulation. Under this model the network licence holder's annual income (received in the form of the network grant and track access charges) would comprise:

- The regulator's assessment of the efficient costs of operating and maintaining the network
- An allowance for Regulatory Asset Base (RAB) amortisation – qualifying capital expenditure is added to the RAB as incurred and recovered by the company through future amortisation allowances (in order to spread the cost to customers and stakeholders of investment in the rail network over many years).
- An allowed return on the RAB – calculated by applying the rate of return permitted by the ORR (based on its assessment of the market's cost of capital) to the RAB balance.

## Notes to the financial statements

for the year ended 31 March 2019

### 12. Property, plant and equipment – the railway network (continued)

In the determination for Control Period 6 (2019-2024), published on 31 October 2018, ORR explains that from 1 April 2019 the RAB will no longer be a building block in the determination of the company's revenue requirement, but that the previous method of revenue determination would be restored if the rail network asset were to be transferred to a private owner. IFRS 13 Fair Value Measurement requires management to assess fair value from the perspective of a theoretical market participant, rather than on the basis of the value-in use. Accordingly, the amendments made to the regulatory framework for Control Period 6, which reflect the proximity of Network Rail to the public sector and which would not apply to a market participant, are not relevant to the valuation.

Future cash flows under (a) are assumed to be equivalent over time to the network licence holder's actual costs of operation and maintenance, on the basis that the Regulator aims to set targets which are ambitious but achievable. These therefore have no net impact on forecast future cash flows, or the valuations. The allowed return (c) is based on a cost of capital which would be offset in a discounted future cash flows model (see Discount rate below). The economic rights inherent in ownership of the regulated rail network asset are therefore vested primarily in the value of the RAB, which will be recovered through future regulated income as the RAB is amortised (b).

This means that it is possible for the RAB itself to be used as the starting point for a discounted cash flow valuation. The RAB fluctuates in valuation; increasing in value principally as a result of allowances for capital expenditure and inflation indexation, whilst reducing for amortisation. The adjustments may give rise to upwards or downwards revaluations. Further changes are subject to:

a) Adjustment for any difference between regulatory rate of return and the market cost of capital that a third party investor would use to assess the value of the network (the rate of return and market cost of capital are currently assessed as fully aligned); and

b) Adjustment for forecast future under or out performance against the regulatory determination over the remainder of the current control period. No adjustment is made in respect of future control periods on the expectation of the Regulator setting, over the long term ambitious but achievable determination. See forecast performance variation below.

When valuing the network, management is required to consider the value a knowledgeable willing party would place on the network in an arm's length transaction. On the grounds that third party investors are known to value the assets of regulated companies by reference to the RAB, and that the cash flows associated with the regulatory framework are considered sufficiently stable and robust to form the basis of a third party valuation, management has used the RAB as the starting point for its valuation.

#### Third party funding

Additions to the railway network funded by capital grant, rather than via the RAB funding mechanism, are included in the valuation at cost. The carrying value of property, plant and equipment is calculated after netting off associated grant funding received or receivable.

## Notes to the financial statements

for the year ended 31 March 2019

### 12. Property, plant and equipment – the railway network (continued)

#### Depreciation

The depreciation charge for any year is calculated using the average carrying value for the year and the estimated remaining weighted average useful economic life of the rail network. The remaining weighted average useful economic life of the rail network was calculated using the engineering assessment of serviceable economic lives of the major categories that comprise the rail network. The estimated remaining weighted average useful economic life of the network is currently 40 years (2018: 40 years).

#### Discount rate

The discount rate used in the income approach is the pre-tax rate of return set by the ORR. The ORR performs a periodic review every five years, which leads to the setting of the appropriate rate for the five-year period. The ORR's method encompasses advice from consultants, comparisons to similar infrastructure assets and discussions with Network Rail. Management believes this cost of capital reflects the assumptions that a market participant would make in arriving at a discount rate.

Should the ORR amend the permitted rate of return in future quinquennial reviews, the regulator would raise or lower the permitted charges to customers so as to achieve the new rate of return. In other words, the cash flows would change but the RAB would not.

The ORR confirmed that a conventionally funded market participant would receive an allowed return equal to the full market cost of capital. This has been reiterated in their final determination for CP6. Management expects that if the rail network asset were to be transferred to a private owner during CP6, ORR would determine the private owner's revenue requirement for CP6 using the pre-tax (CPI) WACC of 4.15% set out in their final determination for this Control Period. Management expects that the rate of return set by the regulator in subsequent quinquennial reviews will be consistent with the market discount rates for infrastructure assets at the quinquennial review date.

Accordingly, the valuation includes a reassessment of this rate to determine whether it continues to reflect market conditions. This assessment is by reference to movements in observable market data, including the risk-free cost of borrowing, and changes in the weighted average cost of capital of listed utilities with similar gearing ratios. The following table shows the effect of changes in the market discount rate on the carrying value of the rail network and on the depreciation charge. The analysis only considers the effects of movements in the market discount rate until the end of Control Period 6 (2024), and not in perpetuity. The effect of changes in the market discount rate apply equally to increases and to decreases in discount rates.

	Change in cost of capital (basis points)	31 March 2019	31 March 2018
Change in fair value	25 basis points	<b>£835m</b>	£173m
	50 basis points	<b>£1,675m</b>	£346m
% change in fair value	25 basis points	<b>1.2%</b>	0.3%
	50 basis points	<b>2.3%</b>	0.5%
Change in annual depreciation charge	25 basis points	<b>£21m</b>	£6m
	50 basis points	<b>£42m</b>	£12m



## Notes to the financial statements

for the year ended 31 March 2019

### 12. Property, plant and equipment – the railway network (continued)

#### Forecast performance variations

In assessing the value of the rail network, management considers that a knowledgeable willing third party would take into account the perceived fairness and deliverability of the current regulatory determination. Accordingly, management makes an addition (or deduction) to the valuation for its assessment of the likely ORR determination in respect of the financial consequences of anticipated future out (or under) performance against the regulatory determination.

Cost outturns on capital work (renewals and enhancements) have an impact on future cash flows under the regulatory framework, since only efficient overspending in excess of regulated cost targets can be added to the RAB.

At 31 March 2019 the valuation included £281m (2018: £1,326m) of projected financial underperformance, which is expected to crystallise in the income statement or result in the ineligibility of additions to the RAB over the next 5 years. Substantially all the balance from last year crystallised in 2018-19.

At this point in the regulatory cycle out or under-performance is measured against the Delivery Plan 2019 which sets out how Network Rail will deliver its outputs in the period 2019-24. It was estimated that the cost of delivering planned outputs is most likely to be £281m more than the regulatory settlement across 5 years. The main reason for this is that train performance at the start of CP6 is at lower levels than assumed in the recent regulatory determination, which is forecast to result in financial underperformance stemming from compensation payments to passenger train operators under the performance regime. The Delivery Plan 2019 will be used to benchmark performance throughout CP6.

#### Critical judgements

The valuation includes the following critical judgements:

- a) The regulatory framework, and associated cash flows remain sufficiently stable and robust to form the basis of a third party valuation. As noted above, the ORR has made it clear in its final determination for Control Period 6 that the amendments made to the regulatory framework for CP6 reflect the proximity of Network Rail to the public sector and the amendments would not apply to a market participant.
- b) The ORR has committed to providing a market cost of capital return to a conventionally funded owner and operator of the network and the fair value calculation has been prepared on that basis. Accordingly, no adjustment has been made to the valuation in respect of the difference between the regulatory rate of return and a market participant cost of capital.
- c) Management's assessment of the deliverability of the current regulatory determination is a good indication of how other management groups would perform against the determination.
- d) The deliverability of the current 5-year regulatory determination does not have any implication for the deliverability of future determinations (i.e. the ambition of the regulator at the start of each Control Period is to set the regulatory determination at a level which is challenging but achievable).

## Notes to the financial statements

for the year ended 31 March 2019

### 12. Property, plant and equipment – the railway network (continued)

#### Critical judgements (continued)

e) The RAB includes historic expenditure on the company's investment properties. In accordance with IAS 40 Investment Property and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations the fair value of investment property and assets held for sale is separately recognised in Notes 13 and 15 to the accounts. The fair value of the railway network excludes the fair value of RAB-funded investment properties (and assets held for sale) on the grounds that a private owner of the railway network would not expect to derive any future economic benefit from the sale of investment property (i.e. the regulator would make a downwards adjustment to the RAB for the value of any investment properties sold). The valuation performed at 31 March 2019 includes a downwards adjustment of £232m to exclude the fair value of investment property and assets held for sale (31 March 2018: £1,348m). The regulator has not reduced the RAB for the value of the non-core railway assets sold by the company in 2018-19 and this has led to a consequential increase in the fair value of the railway network.

At 31 March 2019 the company had entered into contractual commitments in respect of capital expenditure amounting to £2,113m (2018: £2,810m).

We have classified the valuation of the rail network as Level 3 under IFRS 13. The network's fair value is the estimated future cash flows that will be generated in perpetuity, discounted at the regulatory cost of capital, as set by the ORR in its Periodic Review. The cost of capital at which cash flows are discounted is the key unobservable input in the valuation. The full market cost of capital determined by the ORR is 3.71% (2018:4.31%) for the current control period, arrived at through advice from consultants, comparisons to similar infrastructure assets and discussions with Network Rail.

An increase in the market cost of capital would lead to a decrease in the valuation of the rail network and vice versa. However, the impact would be limited to the current control period as the regulator would re-evaluate the allowed return and reset it to the market rate at the next quinquennial review.

## Notes to the financial statements

for the year ended 31 March 2019

### 13. Investment property

	£m
<b>Valuation</b>	
<b>At 31 March 2017</b>	<b>1,231</b>
Additions	4
Disposals	(6)
Transfers from property, plant and equipment	3
Transfers to assets held for sale	(1,142)
Increase in fair value in the year	116
<b>At 31 March 2018</b>	<b>206</b>
Additions	-
Disposals	(14)
Transfers from property, plant and equipment	-
Transfers to assets held for sale	5
Increase in fair value in the year	35
<b>At 31 March 2019</b>	<b>232</b>

The market values of the company's investment properties at 31 March 2019 have been arrived at on the basis of a valuation carried out at that date in conjunction with Jones Lang LaSalle, external valuers not connected with the company. Network Rail Property undertake a detailed review of the investment property portfolio to allocate the portfolio to beacons which represent particular groups of property sharing the same characteristics. Network Rail Property apply yields provided by Jones Lang LaSalle to these beacon categories. Jones Lang LaSalle will also value specific properties, as instructed by Network Rail Property.

Management are satisfied that Jones Lang LaSalle hold a recognised and relevant professional qualification, and have had recent experience in the location and category of the investment property being valued. The fair value of the company's investment property portfolio is deemed to be the market value.

The valuation, which conforms to International Valuation Standards, was arrived at by splitting the portfolio between one-off individual properties to be valued separately and the remainder of the portfolio to be valued under the Beacon method.

Jones Lang LaSalle provided independent valuations of 8 one-off individual properties (2018: 6), amounting to 36 per cent (2018: 35 percent) of the total valuation. The balance of the estate was valued under the Beacon method by splitting the portfolio into 18 homogeneous classes (2018: 13) of property and areas, assuming that the current passing rent received from these properties are in line with market rent. Jones Lang LaSalle independently assessed the appropriate yield to be adopted within each of these classes and areas. This enabled the directors to estimate market values by applying the provided yields to the net rental income from these properties, in accordance with a standard UK investment property valuation.

## Notes to the financial statements

for the year ended 31 March 2019

### 13. Investment property (continued)

The property rental income earned by the company from assets categorised at the year end as investment property, all of which is leased out under operating leases, amounted to £18m (2018: £17m). Direct operating expenses arising on the investment properties in the year amounted to £4.4m (2018: £4.1m).

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.

Property valuations are by their nature subjective, as they are made on the basis of assumptions made by the valuer. They have been classified as Level 3 and the key inputs to the valuations, defined as 'unobservable' by IFRS 13, are analysed in the table below.

	Fair value at 31 March 2019 £m	Estimated rental value per sq. ft			Equivalent yield		
		Minimum	Maximum	Weighted Average	Minimum	Maximum	Weighted Average
		£m	£m	£m	%	%	%
Valuation technique:							
One-off valuation	84	0.66	248	5.38	3.7	13.5	7.1
Beacon method*	148	n/a	n/a	n/a	5	15	7.7

\* The Beacon methodology splits all the properties within the portfolio into 18 homogenous groups. The properties in each group are valued by applying a yield to the annual rent (passing or void) for the property. Yields applied are on the basis that the property is rack rented i.e. the current passing rent received from these properties is in line with market rent. As such, an estimated rental value per square feet for these properties is not available.

All other factors being equal, a higher yield would lead to a decrease in the valuation of a property and an increase in the current or estimated future rental stream would have the effect of increasing the capital value, and vice versa. However, there are interrelationships between the unobservable inputs which are influenced by market conditions, which would impact the changes in fair value.

### 14. Inventories

	31 March 2019 £m	31 March 2018 £m
Raw materials and consumables	221	211

As at 31 March 2019 a provision of £22m (2018: £20m) was held in respect of inventories.

## Notes to the financial statements

for the year ended 31 March 2019

### 15. Assets held for sale

In November 2017 Network Rail received clearance from Her Majesty's Government to begin marketing the sale of a substantial part of its investment property portfolio. On 24 November 2017, the assets were transferred from investment property to assets held for sale at their carrying value, as the criteria for reclassification had been met. The value at which the assets were transferred represents the valuation at this date on the measurement basis described in Note 13. Network Rail completed the sale in February 2019.

Under IFRS 13, the assets are classified as Level 3.

	31 March 2019 £m	31 March 2018 £m
At 1 April	1,134	-
Transfer from investment property	(5)	1,142
Transfer from trade and other payables	(7)	(11)
Additions	22	3
Disposals	(1,134)	-
<b>At 31 March</b>	<b>10</b>	<b>1,134</b>

During the financial year Network Rail disposed of a proportion of the commercial property portfolio from assets held for sale. This achieved a sales value of over £1.4bn and generated net returns above the carrying value of c£0.2bn. As at 31 March 2019, £10m relates to the remaining commercial property disposal.

### 16. Investment in subsidiaries

	31 March 2019 £m	31 March 2018 £m
Beginning of year	320	359
Additions in year	-	-
Disposals in the year	-	(39)
<b>End of year</b>	<b>320</b>	<b>320</b>

During the year ended 31 March 2018, NRIL redeemed £39m of its share capital investment in its subsidiary Network Rail High Speed Limited. This share capital redemption is disclosed within disposals.

## Notes to the financial statements

for the year ended 31 March 2019

### 16. Investment in subsidiaries (continued)

Principal subsidiaries affecting the amounts shown in the financial statements are included in the list below.

<b>Directly owned</b>	<b>Country of incorporation</b>	<b>Proportion of issued share capital owned by the company</b>	<b>Principal activity</b>
Network Rail Insurance Limited	Guernsey	100%	Insurance
Network Rail (High Speed) Limited	Great Britain	100%	Holds St Pancras concession and High Speed Railway Services Agreement
Network Rail Development Limited	Great Britain	100%	Holds 49.95% of each of the property joint ventures Solum Regeneration Limited Partnership and Solum Regeneration (Epsom) Limited Partnership
Network Rail Pension Trustee Limited	Great Britain	Company limited by guarantee	Administration of defined contribution pension scheme
Network Rail Consulting Limited	Great Britain	100%	International rail consultancy
Network Rail Certification Body Limited	Great Britain	100%	Conformity assessment services to the rail industry
Network Rail (VY1) Limited	Great Britain	100%	Holds land required for works access
Network Rail (VY2) Limited	Great Britain	100%	Holds land required for works access

The company is a wholly-owned subsidiary of Network Rail Limited, its ultimate parent, company, and is included in the consolidated financial statements of Network Rail Limited which are publicly available.

## Notes to the financial statements

for the year ended 31 March 2019

### 17. Trade and other receivables

	31 March 2019 £m	31 March 2018 £m
<b>Current assets: trade and other receivables</b>		
Trade receivables:		
- receivable from contracts with other customers	193	130
- receivable from agreements with government	34	113
- receivable from property portfolio customers	112	100
Capital grants receivable	270	163
Other taxation and social security	136	102
Other receivables	25	145
Prepayments and accrued income	36	41
Accrued income:		
- receivable from contracts with other customers	130	107
- receivables from property portfolio customers	68	30
<b>Total</b>	<b>1,004</b>	<b>931</b>

Trade receivables from contracts with customers, agreements with government and from the property portfolio are all based on unconditional rights to consideration and are not contingent on conditional or dependent on satisfying other performance obligations. Trade receivables from agreements with government reflects capital grants due.

Trade receivables include an allowance for estimated irrecoverable amounts from the supply of services of £22.5m (2018: £19m). This allowance has been made by reference to past default experience. Past default experience is adjusted for forward looking information where relevant. The company provides fully for receivables overdue by over six months. Average debtor days were 49 days (2018: 56 days).

The directors consider that the carrying value of trade and other receivables approximates to their fair value. All balances are non-interest bearing and denominated in sterling.

The company's credit risk is primarily attributable to its trade receivables. Around 94 per cent of the company's income is received from train operating companies and in the form of revenue grants from Government. Franchises are issued to train operating companies by the Department for Transport in England and Wales and Transport Scotland in Scotland. The company believes that amounts receivable from Government and the train operating companies represent a high level of credit quality. This is because in the extraordinary circumstance that a train operating company were to be unable to meet its obligations then provisions in the franchise agreements allow the Department for Transport to take over services at any time. Before accepting any other new customer, the company uses an external credit scoring system to assess the potential customer's credit quality.

Included in the company's trade receivable balance are amounts totalling £40m (2018: £92m) which are past due at the reporting date for which the company has not provided as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The company does not hold collateral over these balances. The average age of these receivables is 21 days (2018: 13 days).

## Notes to the financial statements

for the year ended 31 March 2019

### 17. Trade and other receivables (continued)

The following table shows the age of financial assets for the company which are past due and for which no specific provision has been raised:

	31 March 2019 £m	31 March 2018 £m
Past due by 1-28 days	32	79*
Past due by 29-56 days	2	7
Past due by 57-84 days	3	2
Past due by 85-180 days	12	4
	<b>49</b>	<b>92</b>

\*£67m past due by 1-28 days relates to amounts owed by the Department of Transport. This amount was settled 18 days after the year end.

Trade receivables of £15m (2018: £10m) are overdue by six months or more, and have been fully provided for.



## Notes to the financial statements

for the year ended 31 March 2019

### 18. Trade and other payables

	31 March 2019 £m	31 March 2018 £m
<b>Current liabilities: trade and other payables</b>		
Trade payables	729	505
Payments received on account	14	21
Other payables	333	295
Other interest accruals	154	149
Other accruals	1,493	1,245
Deferred income		
- from contracts with other customers	308	238
- from property portfolio customers	77	62
	<b>3,108</b>	<b>2,515</b>

IFRS 15 uses the term 'contract liability' to describe what might more commonly be known as 'deferred income', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The company has not adopted the terminology used in IFRS 15 to describe such balances.

£62m of the property deferred income balance at the beginning of the year and £39m of other government grant was recognised as revenue in the current year.

The average credit period taken for trade purchases is 27 days (2018: 27 days).

Before accepting new suppliers, and upon letting significant contracts, the company evaluates suppliers' creditworthiness using external credit scoring systems and other relevant data.

The directors consider that the carrying value of trade and other payables approximates to their fair value. All balances are ordinarily non-interest bearing and denominated in sterling.

	31 March 2019 £m	31 March 2018 £m
<b>Non-current liabilities: other payables</b>		
Capital grants deferred income	192	145
Other payables	175	136
	<b>367</b>	<b>281</b>

# Notes to the financial statements

for the year ended 31 March 2019

## 19. Borrowings

The borrowings balance is split as follows:

	31 March 2019 £m	31 March 2018 £m
<b>Net borrowings</b>		
Cash and cash equivalents	488	739
Intercompany borrowings	(24,631)	(25,588)
Department for Transport facility borrowings*	(30,580)	(26,750)
Bank loans and overdrafts	(69)	(57)
	<b>(54,792)</b>	<b>(51,656)</b>
<b>Movements in net borrowings</b>		
At the beginning of the year	(51,656)	(46,218)
(Decrease)/ Increase in cash and cash equivalents	(251)	130
Net movement in intercompany borrowings	957	1,154
Increase in borrowings from Department for Transport	(3,830)	(6,713)
Movement in bank loans and overdrafts	(12)	(9)
At the end of the year	<b>(54,792)</b>	<b>(51,656)</b>
Net borrowings are reconciled to the balance sheet as set out below:		
Cash and cash equivalents	488	739
Borrowings included in current liabilities	(11,626)	(4,652)
Borrowings included in non-current liabilities	(43,654)	(47,743)
	<b>(54,792)</b>	<b>(51,656)</b>

\* Included within this balance is a collateral facility of £685m at 31 March 2019.

## Notes to the financial statements

for the year ended 31 March 2019

### 20. Derivative financial instruments

	31 March 2019		31 March 2018	
	Fair value	Notional amounts	Fair value	Notional amounts
	£m	£m	£m	£m
<b>Non-hedge accounted derivatives liabilities</b>				
Forward foreign exchange contracts	(2)	87	(1)	66
Embedded derivative in inter-company borrowings	(681)	31,018	(1,050)	32,009
	(683)	31,105	(1,051)	32,075
Included in current liabilities	(682)	31,077	(1,051)	32,075
Included in non-current liabilities	(1)	28	-	-
<b>Derivative financial instrument liabilities</b>	<b>(683)</b>	<b>31,105</b>	<b>(1,051)</b>	<b>32,075</b>

See Note 26: Funding and financial risk management for further details on the risk management strategy. Notional amounts above reflect the contractual value relating to the principal instrument (e.g. bond) to which the derivative relates.

## Notes to the financial statements

for the year ended 31 March 2019

### 21. Provisions

	Legal £m	Other £m	Total £m
At 1 April 2018	9	74	83
Additional provision in the year	5	9	14
Utilised in the year	(4)	(14)	(18)
Release for the year	(9)	(5)	(14)
<b>At 31 March 2019</b>	<b>1</b>	<b>64</b>	<b>65</b>
Included in non-current liabilities			65

The company has also provided against a number of claims arising from interpretations of legal contracts or past events for which settlement is expected to be achieved in the next year, but could be deferred to future years depending on the legal interpretation of rights and responsibilities under the contracts as well as commercial negotiation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. The nature of these claims means that there is some uncertainty with regard to the value that they will be settled at. If the outcomes of the claims are different to the assumptions underpinning the directors' best estimates then a further liability may arise.

#### Contingent liabilities

The company's lawyers have advised that detailed disclosure regarding the nature and amount of contingent liabilities, beyond that disclosed here, could be expected to prejudice the position of the group. The general nature of contingent liabilities are development indemnities and warranties.

# Notes to the financial statements

for the year ended 31 March 2019

## 22. Deferred tax

	Accelerated tax depreciation	Unrealised gain on investment property	Revaluation of railway network	Short term timing differences including retirement benefit obligations	Derivatives	Tax losses	Total
	£m	£m	£m	£m	£m	£m	£m
<b>At 31 March 2017</b>	<b>2,400</b>	<b>-</b>	<b>46</b>	<b>(51)</b>	<b>-</b>	<b>-</b>	<b>2,395</b>
(Credit)/charge to income	10	-	-	(39)	-	23	(5)
Charge to other comprehensive income	-	-	116	37	1	-	153
Transfer between reserves	-	-	1	(1)	-	-	-
De-recognition of deferred tax asset (income)	-	-	-	-	-	(23)	(23)
De-recognition of deferred tax asset (equity)	-	-	-	-	(1)	-	(1)
<b>At 31 March 2018</b>	<b>2,410</b>	<b>-</b>	<b>163</b>	<b>(54)</b>	<b>-</b>	<b>-</b>	<b>2,519</b>
(Credit)/charge to income	158	(98)	-	(48)	-	-	12
(Credit)/charge to other comprehensive income	-	-	447	(5)	1	-	443
Reclassification	(58)	58	-	-	-	-	-
Transfer between reserves	-	-	(13)	13	-	-	-
De-recognition of deferred tax asset (income)	-	40	-	-	-	-	40
De-recognition of deferred tax asset (equity)	-	-	-	-	(1)	-	(1)
<b>At 31 March 2019</b>	<b>2,510</b>	<b>-</b>	<b>597</b>	<b>(94)</b>	<b>-</b>	<b>-</b>	<b>3,013</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances:

	31 March 2019 £m	31 March 2018 £m
Deferred tax liabilities	3,107	2,572
Deferred tax assets	(94)	(53)
	<b>3,013</b>	<b>2,519</b>

## Notes to the financial statements

for the year ended 31 March 2019

### 23. Share capital

	31 March 2019 £m	31 March 2018 £m
<b>Authorised:</b>		
50,200,000 ordinary shares of 0.1p each	-	-
500,000,000 redeemable shares of £1 each	500	500
	<b>500</b>	<b>500</b>
<b>Issued and fully paid:</b>		
50,084,937 ordinary share of 0.1p each	-	-
160,000,000 redeemable share of £1 each	160	160
	<b>160</b>	<b>160</b>

The company has the option to repurchase any or all of the redeemable shares at any date after 31 March 2003. No premium is repayable on such redemption and the option to repurchase has no expiry date. The redeemable shareholders have no right to redemption at their instigation. Redeemable shares do not carry voting rights, or rank for dividend, but may do so if the company passes a resolution to that effect.

### 24. Notes to the statement of cash flows

	31 March 2019 £m	31 March 2018 £m
Profit before tax	26	219
Adjustments for:		
Depreciation of the railway network	1,810	1,639
Amortisation of capital grants	(136)	(92)
Property revaluation movements and profits on disposal	(351)	(269)
Net interest expense	1,990	2,069
Fair value gains on derivatives	(369)	(236)
Movement in retirement benefit obligations	169	164
(Decrease)/increase in provisions	(18)	16
<b>Operating cash flow before movements in working capital</b>	<b>3,121</b>	<b>3,510</b>
Increase in inventories	(10)	(23)
(Increase)/decrease in receivables	(73)	101
Increase/(decrease) in payables	519	(47)
<b>Cash generated from operations</b>	<b>3,557</b>	<b>3,541</b>

## Notes to the financial statements

for the year ended 31 March 2019

### 25. Operating lease arrangements

The company as lessee

	31 March 2019 £m	31 March 2018 £m
Minimum lease payments under operating leases recognised in the income statement in the year	44	40

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 March 2019 £m	31 March 2018 £m
Within one year	58	33
In the second to fifth year inclusive	157	98
After five years	104	121
	319	252

Operating lease payments largely represent rentals payable by the company for certain of its office properties. Leases are negotiated for an average term of seven years and rentals fixed for an average of three years. In addition rentals are paid for land adjacent to the railway required for maintenance and renewal activities.

The company as lessor

Operating lease rentals earned in the year by the company were £732m (2018: £674m). This amount includes property rental income of £316m (2018: £305m) as disclosed in note 3.

At the balance sheet date, the company had contracted with customers for the following future minimum lease payments:

	31 March 2019 £m	31 March 2018 £m
Within one year	470	444
In the second to fifth year inclusive	1,316	1,213
After five years	2,142	2,335
	3,928	3,992

## Notes to the financial statements

for the year ended 31 March 2019

### 26. Funding and financial risk management

#### Introduction

The company is almost entirely debt funded. Debt has been issued through the special purpose financing company Network Rail Infrastructure Finance plc under the Debt Issuance Programme and loaned to the company through an intercompany loan. The Debt Issuance Programme which is rated AA by Standard and Poor's, Aa2 (outlook stable) by Moody's and AA (outlook negative) by Fitch is supported by a financial indemnity from the Secretary of State for Transport which expires in 2052.

#### Reclassification of Network Rail

In December 2013, the Office for National Statistics announced the reclassification of Network Rail as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10).

As part of Network Rail's formal reclassification to the public sector, an arrangement was agreed whereby funding would be provided by the DfT in the form of a loan made directly to Network Rail Infrastructure Limited, to fund the continuing programme of long-term investment in the national rail network. Network Rail Infrastructure Finance PLC does not anticipate issuing further bonds in the foreseeable future and its debt service obligations would be met through repayments of the intercompany loan by Network Rail Infrastructure Limited.

All of the outstanding bonds under the Network Rail Infrastructure Finance PLC's Debt Issuance Programme, including nominal and index-linked benchmarks and private placements in all currencies, continue to benefit from the direct and explicit guarantee from the UK Government under the Financial Indemnity Mechanism.

In the unlikely event that the DfT withdraws or breaches its obligations on the loan facility to Network Rail Infrastructure Limited, Network Rail Infrastructure Finance PLC may issue further bonds or commercial paper to meet funding requirements.



## Notes to the financial statements

for the year ended 31 March 2019

### 26. Funding and financial risk management (continued)

#### Externally imposed capital requirements

The company is almost entirely debt financed and therefore manages its debt as the key part of its capital. Network Rail manages its debt in relation to the RAB. This is an important business ratio because the value of the RAB and the amount of debt that the business can sustain are, generally speaking, closely related. Network Rail's debts cannot exceed the value of the RAB; a debt to RAB ratio of significantly less than 100 per cent indicates that the business is more robust to future cost shocks (because it is more likely to be able to service additional debt that may arise from losses incurred).

The regulatory net debt at 31 March 2019 was £53,444m (2018: £50,358m). The RAB is reconciled to property, plant and equipment as follows:

	31 March 2019 £m	31 March 2018 £m
Railway network per note 12	71,442	64,117
Investment properties note 13	232	206
Other fair value adjustments	344	2,469
<b>Regulatory asset base (RAB)</b>	<b>72,018</b>	<b>66,792</b>

The debt to RAB ratio at 31 March 2019 and 2018 was as follows:

	31 March 2019	31 March 2018
<b>Debt : RAB ratio</b>	<b>74.2%</b>	<b>75.4%</b>

The debt to RAB ratio is based on regulatory net debt, which recognises debt at hedged rates.

The company owns and operates Britain's rail network under licence from the ORR. The licence imposes conditions on the company with regard to its net debt. Should the value of the company's qualifying net debt exceed 75 per cent of the ORR's RAB then the ORR will be formally notified. In the prior year Network Rail received consent from the ORR to exceed the financial indebtedness Debt:RAB ratio.

# Notes to the financial statements

for the year ended 31 March 2019

## 26. Funding and financial risk management (continued)

Summary table of financial assets and liabilities

The following table presents the carrying amounts and the fair values of the company's financial assets and liabilities at 31 March 2019 and 2018.

The fair values of the financial assets and liabilities are recorded at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values where balances were not already held at fair value:

- bank loans – based on market data at the balance sheet date and the net present value of discounted cash flows

For cash and cash equivalents, investment properties, finance lease receivables, trade and other payables and trade and other receivables, fair value equates to carrying value.

	31 March 2019 Carrying value £m	Fair value £m	31 March 2018 Carrying Value £m	Fair Value £m
<b>Financial Assets</b>				
Cash and cash equivalents	488	488	739	739
Other non-derivative financial assets				
Trade and other receivables ( <i>less prepayments and accrued income and other taxation and social security</i> )	634	634	651	651
Other derivatives	-	-	-	-
<b>Total financial assets</b>	<b>1,122</b>	<b>1,122</b>	<b>1,390</b>	<b>1,390</b>
<b>Financial Liabilities</b>				
Financial liabilities held at amortised cost				
Bank loans and overdrafts	(69)	(69)	(57)	(57)
Loans from subsidiaries	(24,631)	(30,146)	(25,588)	(30,841)
Department for Transport borrowings	(30,580)	(30,523)	(26,750)	(26,245)
<b>Total borrowings</b>	<b>(55,280)</b>	<b>(60,738)</b>	<b>(52,395)</b>	<b>(57,143)</b>
Trade and other payables	(2,898)	(2,898)	(2,621)	(2,621)
Derivatives				
Embedded derivatives in inter-company borrowing	(681)	(681)	(1,050)	(1,050)
Other derivatives	(2)	(2)	(1)	(1)
<b>Total derivatives</b>	<b>(683)</b>	<b>(683)</b>	<b>(1,051)</b>	<b>(1,051)</b>
<b>Total financial liabilities</b>	<b>(58,861)</b>	<b>(64,319)</b>	<b>(56,067)</b>	<b>(60,815)</b>

## Notes to the financial statements

for the year ended 31 March 2019

### 26. Funding and financial risk management (continued)

#### Derivatives

The company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The company does not use derivative financial instruments for speculative purposes. Certain derivatives are designated as hedges, and those derivatives that are not hedge accounted are fair valued immediately through the income statement. The company has a comprehensive risk management process.

The board of Network Rail Limited (the ultimate parent company of NRIL) through a treasury sub-committee (the treasury committee) have approved and monitor the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures.

The use of derivative instruments can give rise to credit and market risk. Market risk is the possibility that future changes in foreign exchange rates and interest rates may make a derivative more or less valuable. Since the company uses derivatives for risk management, market risk relating to derivative instruments will principally be offset by changes in the valuation of the underlying assets, liabilities or transactions being hedged.

#### Credit risk

The company manages its funds with banks that have high credit ratings; assigned by international credit-rating agencies. The treasury committee authorises the policy for setting counterparty limits based on credit ratings. The company spreads its exposure over a number of counterparties and has strict policies on how much exposure can be assigned to each of the counterparties. The amount of the investments varies depending on the level of surplus liquidity the company chooses to hold at any point in time. However, because of the strict criteria governing counterparty suitability the risk is mitigated. The treasury committee also authorises the investment and borrowing instruments that can be used.

The company does not have any significant credit risk exposure to any single counterparty and has considered the creditworthiness of debtors. For further detail on the creditworthiness of customers and suppliers, see Notes 17 (Trade and other receivables) and 18 (Trade and other payables).

The company considers its maximum exposure to credit risk to be the sum of its financial assets as set out on page 64.

## Notes to the financial statements

for the year ended 31 March 2019

### 26. Funding and financial risk management (continued)

#### Foreign exchange risk

The company is exposed to currency risks from its investing, financing and operating activities. Foreign exchange risk for all currencies is managed by the use of forward exchange contracts and currency swaps to limit the effects of movements in exchange rates on foreign currency denominated liabilities.

The company considers a ten per cent movement in the value of any currency against sterling would have no material effect on the company's profit before tax or equity due to all currency positions being 100 per cent hedged and therefore no sensitivity analysis is produced.

#### Interest rate and inflation risk

The company has exposed to changes in interest rates as funds are borrowed at both fixed and floating interest rates. The hedging strategy approved by the treasury committee defines the appropriate mix between fixed and floating borrowings. Cross-currency and interest rate swap contracts are used to manage the fixed/floating ratio.

#### Sensitivity analysis

This sensitivity analysis has been determined based on the exposure to interest rates and inflation for both derivative and non-derivative financial instruments at the balance sheet date. A one per cent increase or decrease represents management's assessment of the reasonably possible changes in average interest rates and inflation.

	31 March 2019		31 March 2018	
	Impact on the income statement £m	Impact on equity £m	Impact on the income statement £m	Impact on equity £m
1% increase in the interest rate	504	-	320	-
1% increase in the GBP RPI	(182)	-	(179)	-

A one per cent decrease in the above rate would have an equal and opposite effect.

Interest rate sensitivities have been calculated by comparing the average rates of the derivative financial instruments to the market rate for similar instruments.

The impact of a change in GBP RPI has been calculated by applying a change of one per cent to the RPI at the balance sheet date to the carrying value of the index-linked bonds in Network Rail Infrastructure Finance Plc.

## Notes to the financial statements

for the year ended 31 March 2019

### 26. Funding and financial risk management (continued)

#### Embedded derivatives

The obligations and rights of Network Rail Infrastructure Limited under the inter-company loan agreement with its financing company give rise to an embedded derivative in that agreement which reflects the external currency and interest rates risks to which the financing company is exposed. The embedded derivative is treated as a separate derivative and is accounted for in accordance with the accounting policy disclosed in note 2.

#### Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the board of directors. The policy manual ratified by the treasury committee includes an appropriate liquidity risk management framework covering the company's short, medium and long-term funding and liquidity management requirements. Treasury is subject to regular internal audits. Treasury provides sufficient liquidity to meet the company's needs, while reducing financial risks and prudently maximising interest receivable and credit risk on surplus cash.

The company manages liquidity risk by maintaining sufficient cash and facilities to cover at least one year's working capital requirement by continuously monitoring forecast and actual cash flows.

The following table details the company's remaining contractual maturity for their financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to pay and, therefore, differs from both the carrying value and the fair value. The table includes both interest and principal cash flows.

31 March 2019	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
<b>Non-derivative financial liabilities</b>					
Inter-company loan	(484)	(1,492)	(2,929)	(44,913)	(49,818)
Trade and other payables	(1,216)	(175)	-	-	(1,391)
Department for Transport borrowings	(9,592)	(8,163)	(10,741)	(3,218)	(31,714)
<b>Derivative financial liabilities</b>					
Embedded derivative	(681)	-	-	-	(681)
Other derivatives	(2)	-	-	-	(2)
	<b>(11,975)</b>	<b>(9,830)</b>	<b>(13,670)</b>	<b>(48,131)</b>	<b>(83,606)</b>

## Notes to the financial statements

for the year ended 31 March 2019

### 26. Funding and financial risk management (continued)

31 March 2018	Within 1 year	1-2 years	2-5 years	5+ years	Total
	£m	£m	£m	£m	£m
<b>Non derivative financial liabilities</b>					
Inter-company loan	(2,450)	(478)	(2,803)	(43,974)	(49,705)
Trade and other payables	(2,660)	(281)	-	-	(2,941)
Department for Transport borrowings	(3,007)	(10,605)	(11,024)	(4,041)	(28,677)
<b>Derivative financial liabilities</b>					
Embedded derivative	(1,050)	-	-	-	(1,050)
Other derivatives	(1)	-	-	-	(1)
	(9,168)	(11,364)	(13,827)	(48,015)	(82,374)

#### Offsetting financial assets and liabilities

##### Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet Financial instruments	Cash collateral paid	Net amount
	£m	£m	£m	£m	£m	£m
<b>31 March 2019</b>						
Derivative financial liabilities	(683)	-	(683)	-	-	(683)
<b>31 March 2018</b>						
Derivative financial liabilities	(1,051)	-	(1,051)	-	-	(1,051)

Network Rail Infrastructure Limited has a collateral obligation of £0.7m which is paid for by Network Rail Infrastructure Finance Plc through the intercompany arrangements.

##### Cash flow hedges

Contractual payments on derivatives designated as cash flow hedges impact the income statement when they occur and will have all matured within the next ten years.

## Notes to the financial statements

for the year ended 31 March 2019

### 26. Funding and financial risk management (continued)

#### Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 March 2019:	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Cash and cash equivalents	488	-	-	488
<b>Assets</b>	<b>488</b>	<b>-</b>	<b>-</b>	<b>488</b>
Derivative financial liabilities	-	(683)	-	(683)
<b>Liabilities</b>	<b>-</b>	<b>(683)</b>	<b>-</b>	<b>(683)</b>
<b>Total</b>	<b>488</b>	<b>(683)</b>	<b>-</b>	<b>(195)</b>
As at 31 March 2018:	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Cash and cash equivalents	739	-	-	739
<b>Assets</b>	<b>739</b>	<b>-</b>	<b>-</b>	<b>739</b>
Derivative financial liabilities	-	(1,051)	-	(1,051)
<b>Liabilities</b>	<b>-</b>	<b>(1,051)</b>	<b>-</b>	<b>(1,051)</b>
<b>Total</b>	<b>739</b>	<b>(1,051)</b>	<b>-</b>	<b>(312)</b>

There were no transfers between Level 1 and 2 during the current and prior year.

## Notes to the financial statements

for the year ended 31 March 2019

### 27. Retirement benefit schemes

#### Defined contribution schemes

On 1 April 2004 the company introduced a defined contribution pension scheme, the Network Rail Defined Contribution Pension Scheme (NRDCPS). These schemes are offered to all new employees of Network Rail, except those who have the legal right to join the Railway Pension Scheme (RPS). Any employee who wishes to transfer from the Network Rail Section of the RPS to the NRDCPS is entitled to do so.

At 31 March 2019, the NRDCPS had 13,135 members (2018: 12,170) and the average employer contribution rate in the year was 4.2 per cent (2018: 4.3 per cent).

#### Defined benefit schemes

The principal pension scheme in which the company participates is the Railway Pension Scheme (RPS), which was established by statutory instrument, commenced on 1 October 1994 and is a funded defined benefit arrangement. The assets and liabilities under the predecessor scheme, the British Rail Pension Scheme (BRPS), were transferred to the RPS on that date. The RPS is an industry-wide scheme for all eligible employees within the railway industry. There are different sections within it for different employers. The assets and liabilities of each section are identified separately from those of the other sections. The company has its own section, the Network Rail Shared Cost Section (the Network Rail Section). This scheme, the assets of which are held separately from the company, is contributory and provides pensions related to pay at retirement.

The assets transferred to the RPS from the BRPS on 1 October 1994 were apportioned among the various sections of the RPS in accordance with the methods and assumptions specified in The Railways Pensions (Transfer and Miscellaneous Provisions) Order 1994 (the 'Transfer Order') which effected the transfer. The amount credited to the Network Rail Section included a share of the surplus at that time.

Since 1 April 2004, new members can only join the Network Rail Section of the RPS after completing five years of service. Benefits for existing members and employees joining up to and including 31 March 2004 were not affected by the revised eligibility rules of the Network Rail Section. In addition, the company announced its decision to cap its contribution to British Railways Additional Superannuation Scheme (BRASS) matching at current levels for existing employees and to dispense with matching for new employees. The company will continue to match regular contributions but will not increase them in cash terms in the future.

On 1 November 2008 Network Rail launched a third pension scheme – the Career Average Revalued Earnings (CARE) scheme, which is available to all employees.

Qualified actuaries Willis Towers Watson have valued the schemes on an IAS 19 (revised) basis at 31 March 2019 and 31 March 2018.



## Notes to the financial statements

for the year ended 31 March 2019

### 27. Retirement benefit schemes (continued)

The contributions required to fund the RPS and the CARE scheme are reassessed every three years, following completion of actuarial valuations (by the Scheme Actuaries). Under the terms of the Pensions Act 2004, the Trustee and each employer must agree the methods and assumptions used to calculate the 'Technical Provisions', i.e. assets required to meet the Section's liabilities. The assumptions agreed are typically weaker than those used for IAS 19 purposes in current market conditions, so the minimum funding requirement in itself requires no further adjustment to the IAS 19 obligations below. However, the regulatory regime may, depending on legal advice received at the appropriate time, mean that a future employer's accounting surplus would need to be restricted.

The RPS and CARE schemes are both shared cost in nature, so the cost of benefits being earned and the cost of funding any shortfall in the schemes are normally split in the proportion 60:40 between the company and the members. In practice the contributions are adjusted at each triennial valuation to reflect the funding position of the schemes at that time.

The estimated amounts of contributions expected to be paid by the company and members to the schemes during the year ended 31 March 2020 are £120m and £78m respectively. If a surplus or deficit arises, the provisions in the rules mean that the company and members benefit from or pay for this respectively in the proportion 60:40.

	2019	2018
	%	%
<i>Key assumptions used:</i>		
Discount rate	2.3	2.4
Expected rate of price inflation and CARE benefit increases (RPI measure)	3.2	3.1
Future earnings increases*		
- after changes to benefits from 1 April 2016	3.2	3.1
Pension increases (CPI measure)	2.2	2.1

\*excluding promotional salary scale. Promotional salary scale increases apply only in respect of service after the date of promotion.

## Notes to the financial statements

for the year ended 31 March 2019

### 27. Retirement benefit schemes (continued)

	2019		2018	
	Males	Females	Males	Females
Average life expectancy mortality tables used to determine defined benefit obligations:				
- Member aged 65	22.2	23.8	22.1	23.7
- Member aged 45	23.9	25.7	23.8	25.6

For Network Rail Section of the RPS the discounted mean term of the defined benefit obligation is 22 years, for the CARE scheme it is 33 years.

Amounts recognised in income in respect of the company's pension arrangement are as follows:

	2019 £m	2018 £m
Current service cost – defined contribution (see note 6)	20	19
Current service cost – defined benefit (see note 6)	257	256
Past service credit - defined benefit (see Note 6)	7	-
Interest cost	55	57
	<b>339</b>	<b>332</b>

The current service cost has been included in employee costs, the net interest scheme deficit has been included in finance costs.

Amounts recognised in the statement of comprehensive income in respect of the company's pension arrangement are as follows:

	2019 £m	2018 £m
Gain on defined benefit obligation due to experience	(46)	(31)
Loss/(gain) on defined benefit obligation due to assumption changes	285	(132)
Return on plan assets greater than discount rate	(208)	(58)
Actuarial loss/(gain) recognised in the statement of comprehensive income	<b>31</b>	<b>(221)</b>

The cumulative amount of actuarial losses recognised in other comprehensive income was £1,519m (2018: £1,488m).

## Notes to the financial statements

for the year ended 31 March 2019

### 27. Retirement benefit schemes (continued)

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit schemes is as follows:

	2019 £m	2018 £m
The defined benefit obligation is made up as follows:		
Active members	(6,253)	(5,827)
Deferred pensioner members	(1,455)	(1,281)
Retired members	(3,480)	(3,200)
Present value of defined benefit obligation	(11,188)	(10,308)
Fair value of scheme assets	6,912	6,457
Deficit in the scheme	(4,276)	(3,851)
Company's share (60%) of the scheme deficit recognised in the balance sheet	(2,566)	(2,311)

This amount is presented as a non-current liability in the balance sheet. Cumulative gains or losses are recognised in equity.

Expected future benefit payments from the Network Rail Section, based on data from the 2013 formal valuation and the 31 March 2019 IAS19 assumptions are as follows:

	£m
Benefits expected to be paid within 12 months	199
Benefits expected to be paid between 2 to 3 years	440
Benefits expected to be paid between 4 to 6 years	766
Benefits expected to be paid between 7 to 10 years	1,228
Benefits expected to be paid between 11 to 15 years	1,832
Benefits expected to be paid in over 15 years	12,023

## Notes to the financial statements

for the year ended 31 March 2019

### 27. Retirement benefit schemes (continued)

Movements in defined benefit plan assets and liabilities (including members' share)

	Assets*	Liabilities**	Deficit
	£m	£m	£m
<b>At 1 April 2017</b>	<b>6,231</b>	<b>(10,083)</b>	<b>(3,852)</b>
Current service cost including members' share		(440)	(440)
Interest on pension deficit	156	(249)	(93)
Administration expenses	(11)	-	(11)
Return on plan assets greater than the discount rate	97	-	97
Actuarial gain arising from experience adjustments		52	52
Actuarial loss arising from demographic assumptions		219	219
Regular contributions by employer	107	-	107
Contributions by employees	70	-	70
Benefits paid	(193)	193	-
<b>At 1 April 2018</b>	<b>6,457</b>	<b>(10,308)</b>	<b>(3,851)</b>
Current service cost including members' share		(445)	(445)
Interest on pension deficit	154	(245)	(91)
Section amendment (Past Service Cost)	-	(11)	(11)
Administration expenses	(13)	-	(13)
Return on plan assets greater than the discount rate	346	-	346
Actuarial gain arising from experience adjustments	-	81	81
Actuarial loss arising from demographic assumptions	-	-	-
Loss on DBO – financial assumption	-	(476)	(476)
Regular contributions by employer	112	-	112
Contributions by employees	72	-	72
Benefits paid	(216)	216	-
<b>At 31 March 2019</b>	<b>6,912</b>	<b>(11,188)</b>	<b>(4,276)</b>

\*Including CARE scheme assets at 31 March 2019 of £250m (2018: £214m)

\*\*Including CARE scheme liabilities at 31 March 2019 of £595m (2018: £476m)

The actual return on scheme assets was £500m (2018: £253m).

The analysis of the scheme assets and the expected rate of return at the balance sheet date is as follows:

	Fair value of assets		Percentage of assets	
	2019	2018	2019	2018
	£m	£m	£m	£m
Equity instruments	6,116	5,714	88.48	88.49
Debt instruments - Government	531	472	7.68	7.31
Debt instruments - non-Government	233	265	3.37	4.10
Property	8	6	0.12	0.10
Other	24	-	0.35	-

## Notes to the financial statements

for the year ended 31 March 2019

### 27. Retirement benefit schemes (continued)

The company is exposed to a number of risks relating to the scheme including assumptions not being borne out in practice. The most significant risks are as follows:

#### Asset volatility

There is a risk that a fall in asset values is not matched by corresponding reduction in the value placed on the defined benefit obligation scheme (DBO). The scheme holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long term but gives exposure to volatility and risk in the short-term.

#### Change in bond yields

A decrease in corporate bond yields will increase the value placed on the scheme DBO, although this will be partially offset by an increase in the value of the scheme's corporate bond holdings.

#### Inflation risk

The majority of the scheme's DBO is linked to inflation where higher inflation will lead to higher value being placed on the DBO. Some of the scheme assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.

#### Life expectancy

An increase in life expectancy will lead to an increased value being placed on the scheme's DBO. Future mortality rates cannot be predicted with certainty.

#### Actuarial assumption sensitivity

The discount rate is set by reference to market conditions at the reporting date, and can vary significantly between periods.

The earnings increases are linked to inflation and so set by reference to market conditions at the reporting date.

The mortality assumptions used are set by considering the experience of the scheme's members, and by making an allowance for possible future improvements in longevity. Mortality assumptions are difficult to set accurately and forecasting rates of future mortality improvement is inevitably speculative.

## Notes to the financial statements

for the year ended 31 March 2019

### 27. Retirement benefit schemes (continued)

The following table shows the effect of changes in these assumptions upon the defined benefit obligation:

	2019 £m	2018 £m
<b>Discount rate</b>		
Change in defined benefit obligation at year end from a 25 basis point increase	651	(529)
Change in defined benefit obligation at year end from a 25 basis point decrease	603	571
<b>Mortality</b>		
Change in defined benefit obligation from a one year increase in longevity	332	287
Change in defined benefit obligation from a one year decrease in longevity	(329)	(278)
<b>Earnings increases</b>		
Change in defined benefit obligation at year end from a 25 basis point increase	172	164
Change in defined benefit obligation at year end from a 25 basis point decrease	(166)	(159)
<b>Price inflation (CPI measure)*</b>		
Change in defined benefit obligation at year end from a 25 basis point increase	619	541
Change in defined benefit obligation at year end from a 25 basis point decrease	(576)	(505)

\* Including consistent increases to Retail Price Index, salary growth and Retail Price Index/ Consumer Price Index related pension's assumptions.

## Notes to the financial statements

for the year ended 31 March 2019

### 28. Related parties

	2019 £m	2018 £m
<b>Loans to subsidiaries and immediate parent company</b>		
Network Rail Development Limited	37	29
Network Rail Consulting Limited	12	11
Network Rail (VY1) Limited	5	5
Network Rail (VY2) Limited	11	11
	<b>65</b>	<b>56</b>
<b>Loans to joint ventures</b>		
The Station Office Group	-	3
West Hampstead Limited Partnership	-	10
	<b>-</b>	<b>13</b>

The amount repayable from Network Rail Development Limited is considered as long-term funding and used to invest in joint ventures; Solum Regeneration (GP) Limited and Solum Epsom (GP) Limited. No interest is charged on the loan.

#### Loans from subsidiaries

	2019 £m	2018 £m
Network Rail Infrastructure Finance PLC	(24,631)	(25,645)

The Department for Transport (DfT) and Transport Scotland (TS) is considered related parties of NRIL. NRIL received grant income of £3,786m from the DfT in the year ended 31 March 2019 (2018: £4,055m). NRIL received grant income of £339m from TS in the year ended 31 March 2019 (2018: £425m). The company also paid the DfT £266m in respect of the Financial Indemnity Mechanism fee (see note 25 for more details). At 31 March 2019 the company held £30,580m of loans issued by DfT (2018: £26,750m).

The British Transport Police (BTP), with whom Network Rail has a Police Service Agreement is also a related party. Network Rail incurred £91m (2018: £93m) of costs relating to services provided by the BTP in the year ending 31 March 2019 and received £1m (2018: £1m) in property income from the BTP in the same period.

Network Rail is also a related party of High Speed 2 (HS2). At the end of the financial year Network Rail held £38m (2018: £73m) of capital work in progress relating to works on HS2 and had also received £63m (2018: £50m) of capital grants that was recorded against property, plant and equipment.

## Notes to the financial statements

for the year ended 31 March 2019

### **28. Related parties (continued)**

#### **Ultimate parent company**

The company's ultimate parent company and controlling entity is Network Rail Limited (NRL), a company limited by guarantee without shares. NRL is a public sector company, answerable to the Department for Transport (DfT), Transport Scotland and Secretary of State. The company's immediate parent company is Network Rail Holdco Limited. Both parent companies are incorporated in Great Britain and registered in England and Wales. The largest group of undertakings of which the company is a member and for which group financial statements are drawn up is Network Rail Limited. Only Network Rail Limited produce consolidated financial statements. Copies of the ultimate parent company's financial statements can be obtained by contacting the company secretary at 1 Eversholt Street, London, NW1 2DN.

### **29. Post balance sheet events**

As at the date of signing these financial statements there have not been any significant post balance sheet events, whether adjusting or non-adjusting.