Network Rail Infrastructure Limited

Financial statements

Year ended 31 March 2022

Company registration number 2904587

Contents

Officers and professional advisers

Directors

Andrew Haines
Rob Brighouse
Sir Peter Hendy
Silla Maizey
David Noyes
Mike Putnam
Jeremy Westlake
Fiona Ross
Mark Bayley
Michael Harrison
Ismail Amla (appointed 1 April 2021)
Stephen Duckworth (appointed 1 April 2021)

Company secretary

Stuart Kelly (resigned 29 July 2022)
Susan Beadles (appointed 25 August 2022)

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 2022.

Who we are and what we do

Our purpose is to get people and goods where they need to be, and to support Great Britain's economic prosperity. Our role is to run a safe, reliable and efficient railway, serving our customers and communities. We own, repair and develop the railway infrastructure in England, Scotland and Wales.

How are we structured

To help us provide the best service for passengers and freight in each part of the country, we work closely with train operators. To do this Network Rail is split into five regions, each with a managing director who sits on our Executive Leadership Team.

Within the regions we have established 15 routes, responsible for the operation, maintenance and renewal of the railway in their area. By devolving responsibility of the day-to-day running of the railway to routes, we have brought decision making closer to passengers. This means that those who have the best understanding of what passengers in their area want, now have the resources and responsibility to deliver for them.

Our regions are also supported by our national functions, who make sure they have everything they need to succeed. System Operator provides a whole-system, long-term view of the railway, informed by detailed knowledge gained from planning and timetabling the network, and from the valuable relationships it has with customers, funders, regions and routes. Route Services provides vital services, like IT and procurement, where economies of scale or specialist expertise mean it makes sense to provide these from a central point. Technical Authority provides technical leadership and specialist expertise. Finance, HR, Communications provide professional support to our regions and functions.

Network Rail is a public sector company, answerable to the Department for Transport (DfT) and Transport Scotland. Our board includes a non-executive chair, executive directors and non-executive directors. The chair aims to ensure our policies and actions support the wider strategic policies of the Secretary of State for Transport and the Scottish Ministers.

We are independently regulated by the Office of Rail and Road (ORR). It sets our targets and reports regularly on our performance to ensure we are operating efficiently and well, and that we are properly funded.

How we're funded

Our income is a mix of grants from the UK and Scottish Governments, payments from train and freight operators that use the railway, and a small amount of income from the property we own, e.g., rental income from shops at stations. We also work closely with organisations that are willing to pay for specific projects that benefit both them and our passengers and freight users.

We work in five-year funding cycles, called Control Periods (CP), and each year is divided into thirteen, four-week reporting periods. The UK and Scottish Governments tell us what they need from the railway network in each CP and how much they can afford to pay for it. The 2021/22 financial year is the third year of CP6 which runs from April 2019 to March 2024.

The Office of Rail and Road (ORR), our independent regulator, decides how much money it thinks we need to run our business efficiently and to deliver what the governments have asked for. The ORR then fixes the amount we can charge train operating companies for using the railway network.

Strategic report (continued)

Network Rail's vision

Our vision is

"Putting Passengers First"

We're becoming a company that is on the side of passengers and freight users. A company that is easy to engage with and is an efficient and dependable partner; a company people are proud to work for.

In 2019 we asked our customers, stakeholders and employees what they thought of Network Rail. People thought we were hard to do business with, we had a confusing structure that was too siloed and too centralised, and that we did not empower our people to make decisions. Our people wanted to feel proud to work for the company. We developed our Putting Passengers First vision to address this feedback.

We identified our six strategic priorities for delivering that vision. And we organised our business to bring decision making closer to those we serve, making sure that the regions and routes meet the needs of their passengers, customers and communities.

We defined our corporate values to help our people understand how they can put passengers first. We're emphasising that the work each of us does, connects us with our passengers and freight users. And we're making it easier for our partners and suppliers across the industry to work with us.

Our Culture

To complement our putting passengers first vision, we're embedding a customer service mindset across the business. Embodying this mindset, and to help our people understand how they can put passengers first, we have defined our corporate values:

We **empower** our people to always be **safe**, **care** about the railway, its users and each other, and put **teamwork** at the heart of all that we do.

These values include our corporate behaviours of being accountable, challenging, collaborative and customer driven.

Our customer service mindset not only applies to how we work with passengers. It defines how we work with our colleagues within Network Rail and our other stakeholders, such as those living next to or close by the railway, and the train operating companies.

This culture will show that we're on the side of passengers and freight users; that we're easy to engage with, an efficient and dependable partner; and it will help our people to feel proud to work for Network Rail.

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 can feel confident that they are in safe hands. We have agreed £50.3bn of funding from the DfT and Transport Scotland to fulfil this role in CP6. Reliable train performance is what we must deliver daily, and what we should and will be held to account for throughout the control period.

Strategic report (continued)

Our strategic priorities

Our six strategic themes

Our plans for CP6 are underpinned by our six strategic themes. These are directly derived from our vision, role and purpose. They provide structure and clarity to our thinking, covering what we'll do and how we'll do it, so that we deliver the railway that Britain needs, and passengers deserve.

Safety and **train service delivery** represent the fundamental pillars of delivering a great service for passengers and freight users. As an organisation which receives significant taxpayer funding, we have a duty to be **efficient** in our use of public resources, and to support the **sustainable growth** of the economy. We know that our **people** are key to us delivering on our commitments. Our focus on **customers and communities** keeps outcomes and our impact on the wider community at the heart of our decision making. The following pages show just some examples of the work we're doing in each area.

Safety

Our **safety** vision is Everyone Home Safe Every Day. For us, safety is paramount. We work to make sure passengers and other members of the public understand how to stay safe around the railway, and we're passionate about the safety of our employees and contractors. Safety is at the heart of every decision we take during our improvement works. We measure our safety performance and work hard to improve where we can.

Train service delivery

We are improving **train service delivery** by reducing delays and disruption for passengers and freight users. We do this by working to stop faults happening. By improving how we work and the technology we use to find and fix faults more quickly, we can get the service back to normal as swiftly as possible.

Efficiency

We are working to deliver an affordable and **efficient** railway. While we don't set rail fares, we do understand our responsibility to spend tax-payers' money wisely in improving the railway infrastructure. We're using the latest technology and practices to speed up our work safely, on and off the track. By taking less time to complete work, we're saving money and causing less delay and disruption for our passengers and freight users.

Sustainable growth

Prior to the coronavirus pandemic, **sustainable growth** was as much about increasing the capacity on the rail network as about reducing our impact on the environment. Passenger numbers in a post-pandemic world remain uncertain, as does the passenger profile between business travelers, commuters and those travelling for leisure. We continue to model and forecast potential passenger trends that we might see in the months and years ahead. However, we also need to continue our work to improve the railway infrastructure where there is a strong business case to do so.

In September 2020 we published our Environmental Sustainability Strategy 2020-2050. That strategy commits us to delivering a low emission railway, a reliable railway service that is resilient to climate change, with improved biodiversity of plants and wildlife, and minimal waste and sustainable use of materials (see the Environmental Sustainability section in NRL 2022 accounts).

Strategic report (continued)

Our strategic priorities (continued)

Customers and communities

We're improving the service we provide to our **customers and communities** by listening to what they need and responding appropriately. We're working more closely with our lineside neighbours, the people and businesses who live and work next to the railway, trying to minimise the impact our trackside works may have on them, both in terms of noise and disruption, and our workers' behaviour. We have reduced the time it takes us to respond to any complaints we receive.

People

We can only achieve our vision of putting passengers first if we employ the best **people**. To help us attract and retain the best, we must create an environment in which people can bring their whole selves to work. We need our people to feel safe to be who they are without fear of discrimination, and we need to offer them an environment in which they can fulfil their potential and feel valued. A diverse workforce will reflect the diversity of our passengers, the communities we serve and in which we operate; it will help us to understand and address what people need from us.

Our business model – How we are organised

We are organised into five geographical regions, each with its own managing director, see map in NRL accounts. Those regions are sub-divided into a total of 15 routes. Many decisions that were previously taken centrally now take place at region or route level. The people making the decisions are closer to their passengers and freight users and have a better understanding of what they need so we can deliver any changes more effectively.

Regions led on local resourcing strategy and planning activities, bringing together engineering capability and asset (e.g., track, bridges, signals, cuttings, etc) management. Regions are accountable for improving the railway network within their geographies, and are responsible for some aspects of longer-term planning, including early timetable and project business case development.

Routes are responsible for running the railway on a day-to-day basis. This includes carrying out repairs to our assets over the short to medium term. For more information on each region, please see their individual reports (refer to NRL accounts)

Our **Route Services** directorate supports our routes, regions and functions by providing network operations, freight, telecoms and technical expertise, as well as 60 different customer-focussed services to regional customers and other parts of our business. Route Services includes, amongst other teams, commercial and procurement, supply chain operations, business services, IT services, asset information services, and engineering services. By overseeing the delivery of national programmes and initiatives, the team focuses on providing services that put our passengers and freight customers first.

We have two network-wide directorates, System Operator and Technical Authority, and our core professional functions, the Chief Financial Officer's directorate, Human Resources (HR), and Communications.

System Operator provides industry leadership in the development of long-term network strategies and advice to funders, integrating the railway service we need to deliver, and production of the railway timetable.

Technical Authority has network wide accountability for setting and monitoring compliance with the policy, strategy and control frameworks relating to safety, engineering, asset management, security, environment and sustainability in accordance with our Licence to Operate and Safety Authorisation.

Strategic report (continued)

Our business model – How we are organised (Continued)

Our **CFO directorate** is made up of eight functions: Group Finance, Property, Legal and Corporate Services, Audit and Risk, Planning and Regulation, Corporate Finance and Business Development, Corporate Commercial, and the Rail Investment Centre of Excellence. These functions deliver the company's legal reporting and compliance requirements with the ORR and third parties and lead the development and delivery of network strategy and our business plan. The function also provides professional leadership and assurance on capital delivery affordability and holds the business to account for delivering sustainable efficiencies.

Human Resources (HR) leads the development and delivery of our people strategy and policies across the business. It provides professional HR leadership and services, working with the regions and functions according to their needs and demand. The team also delivers strategic transformation initiatives.

Communications provides strategic leadership for our communication teams: promoting best practice, supporting outstanding communications to enable delivery of scorecards, facilitating local delivery of communications, and ensuring compliance with corporate standards.

Our approach to risk management

Network Rail recognises that the effective management of risk is critical to maintaining essential service provision and improving the experiences of passengers and freight users. Our approach to risk management therefore balances the threats associated with our operational environment with identifying opportunities to improve performance through careful acceptance of some risk.

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 the opportunity to review, monitor and enhance mitigations depending on the changing conditions and challenges.

<u>Embedded risk management processes</u>

We have an enterprise risk management (ERM) framework in place for the identification, analysis, management and reporting of all risks to strategic objectives. 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.

Industry risk: Collaborative risk management means we are better able to understand and manage the interdependencies, threats and opportunities that we face collectively as an industry.

This year we introduced risk categories to identify when a strategic risk could impact on passengers, the wider industry, or third parties.

- **Category A Criteria**
- Direct impact on the passengers and freight users.
- A risk to the successful delivery of a U.K. rail strategic objective.
- A risk that is likely to require more than one U.K. rail stakeholder or 3rd party input.

- **Category B Criteria**
- Direct impact on a Network Rail strategic objective.
- A risk which would impact on Network Rail's mitigation activity identified in a Category A industry risk.

Strategic report (continued)

Our approach to risk management (continued)

- **Category C Criteria**
- Enterprise-wide impact on normal business operations.
- A risk to Network Rail which would not result in a direct impact to passengers and freight users

- **Tools & technology:** Network Rail uses a suite of standardised tools to ensure consistency across our enterprise-wide approach. 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.

- **Oversight:** 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.

  This level of oversight is underpinned by the business assurance committee process (BAC), which operates at three levels in the organisation; the purpose of these forums being to act as a mechanism for leadership teams to govern the management of risk within their function, as well as escalating risks that cannot be managed locally or have wider impact. Each risk is assigned an owner, with the most significant risks (L0 risks) each owned by a member of the executive leadership team.

Financial risk management

Disclosures relating to the group's use of financial instruments, financial risk management objectives and policies of the company, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; its exposure to price risk, credit risk, liquidity risk and cash flow risk can be found under note 27.

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, health and environment drives all major decisions in the organisation. Network Rail will consider options to reduce risk where the business case goes considerably beyond our legal obligation to reduce risk so far as is reasonably practicable.

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 confidence interval (CI) for income and 60 per cent CI for cost reductions where potential returns are high).

Where trade-offs are required in order to prioritise 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. Climate change will lead to a more difficult operating environment, but this will be responded to within plans leading to acceptable levels of impact on overall delivery and asset reliability.

Strategic report (continued)

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

The company wants to be seen to be best in class and respected across the 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 should be balanced by regular positive media coverage at national and local level.

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

Acting fairly between our stakeholders
We focussed on promoting the success of the business and benefitting all our stakeholders. As a publicly owned, not-for dividend company, our activities and engagement concentrated on delivering our strategy and the needs of our member (the Secretary of State for Transport), our passengers, our people, the general public, our supply chains, the train operators, and our regulator.

High standards of business conduct
Our governance and decision-making arrangements ensure we manage the business responsibly and effectively and to high standards of business conduct. This includes operating within the requirements of our licence, relevant legislation and regulations, as well as understanding our responsibilities to spend public funds efficiently and manage risks effectively. In 2019/20, to support the quality of the decisions we took at Board and committee meetings, we implemented a programme to improve the quality of meeting papers and information we receive from the business. We also have a series of policies and guidance setting out expected standards of behaviour and conduct. Our policies include Anti-bribery policy, Anti-slavery and human trafficking policy, Code of business ethics, Speak out (whistleblowing) policy.

We have established a committee structure to which we delegate detailed scrutiny of key areas of our responsibilities. We have ensured our Board has the right range and depth of knowledge, skills and experiences to run the business effectively; we refreshed our Board membership, in line with best practice, so these remained relevant and up to date (the biographies of our directors are included in the Network Rail Limited Group Annual Report on pages 109 to 111. At the date of this report just over 17 per cent of our Board members are women. However, we understand the benefits of diversity and are continually seeking to improve it across our Board and executive membership. In a company as large as Network Rail, we partly fulfil our duties by delegating day-to-day decisions to company employees within our governance framework.

Likely consequences of decisions in the long term
We developed our strategy in consultation with our stakeholders, to improve the services we provide to our passengers, freight users, suppliers, customers and communities, and our people. Its six core themes represent the kind of business we want to be and the kind of experiences we want our stakeholders to have when they interact with us. Each theme is being developed by the national strategy committee which will inform and advise the Board of the likely consequences of decisions over the long term.

National Strategy Committee Business themes
- Customers and communities
- People
- Sustainable growth
- Efficiencies
- Safety
- Train service delivery

Strategic report (continued)

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

Vision

- Easy to engage with and an efficient and dependable partner
- On the side of passengers and freight users
- People are proud to work here
- Instinctively recognised as the industry leader

Interests of the company's employees
The re-organisation of the business under Putting Passengers First has involved significant changes in our structure. We have implemented a series of national consultation briefings with teams, individuals, and their trade union representatives. We have continued the Your Voice surveys, the listening programme, and business briefings. We have also consulted our frontline track workers in developing an improved safety culture through the safety task force.

Impact of operations on the community and the environment
In October 2019 we established the environmental sustainability advisory committee to review those of our activities which affect the environment and the consequential impact for the general public and local communities. We also revised the terms of reference for our safety, health and environment committee to ensure we meet our responsibilities for complying with environmental legislation and regulations.

Fostering business relationships with suppliers, customers and others
During the year we developed initiatives to make us more dependable and easier to work with by working smarter with our supply chain and involving them earlier in the planning phase to help us deliver work more efficiently. These initiatives include early contractor involvement, work bank planning and improved contracting strategies.

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

Andrew Haines (director)
18 November 2022

Directors' report

The directors present their audited financial statements of the company for the year ended 31 March 2022.

Business review

For the year ended 31 March 2022 the group made a pre-tax profit of £317m (2021: £1,605m pre-tax profit) and the company made a pre-tax profit of £211m (2021: £1,682m pre-tax profit). The tax charge for the group for the year was £1,044m (2021: £255m).

Details on the overall group'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 (2021: £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.

Directors' statement of 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 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.

Directors' report (continued)

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 Financial Officer
18 November 2022

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 and its group for the year ended 31 March 2022 which comprise:

- Network Rail Infrastructure Limited's Income Statement and Statement of Comprehensive Income for the year then ended;
- Network Rail Infrastructure Limited's and its Group's Balance Sheet as at 31 March 2022;
- Network Rail Infrastructure Limited's and its Group's Statement of Changes in Equity and Statement of Cash Flows for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and the UK adopted International Accounting and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In my opinion the financial statements:

- give a true and fair view of the state of the Network Rail Infrastructure Limited and its Group's affairs as at 31 March 2022 and its loss for the year then ended; and
- have been properly prepared in accordance with UK adopted international accounting standards and
- have been prepared in accordance with the requirements of 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of Network Rail Infrastructure Limited and its Group in accordance with the ethical requirements that are relevant to my audit of 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.

Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

Conclusions relating to going concern

In auditing the financial statements, I have concluded that Network Rail Infrastructure Limited and its Group's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the director's assessment of the entity's ability to continue to adopt the going concern basis of accounting included evaluation of management's assessment of future cash requirements; future income streams; debt funding arrangements; potential legislative changes; and the impact of the government's publication of the Williams-Shapps Plan for Rail.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Network Rail Infrastructure Limited and its group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises information included in the Annual Report but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

- the Strategic Report and the Directors' Report been prepared in accordance with applicable legal requirements; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

Matters on which I report by exception

In the light of the knowledge and understanding of the Network Rail Infrastructure Limited and its Group and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept 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 director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the parent company; or
- I have not received all of the information and explanations I require for my audit.

Responsibilities of the directors for the financial statements

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

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as directors determine are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the Network Rail Infrastructure Limited and its Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. 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.

Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

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

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Network Rail Infrastructure Limited and its Group's accounting policies, key performance indicators and performance incentives.
- Inquiring of management, Network Rail Infrastructure Limited's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Network Rail Infrastructure Limited and its Group's policies and procedures relating to:
    - identifying, evaluating, and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Network Rail Infrastructure Limited and its Group's controls relating to Network Rail Infrastructure Limited's compliance with the Companies Act 2006, Managing Public Money and the Railways Act 2005.
- discussing among the engagement team including significant component audit teams and involving relevant internal and external specialists, including external pension specialists and internal IT auditors regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Network Rail Infrastructure Limited and its Group for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of Network Rail Infrastructure Limited and its Group's framework of authority as well as other legal and regulatory frameworks in which Network Rail Infrastructure Limited and its Group operate, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of Network Rail Infrastructure Limited and its Group.

Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

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

The key laws and regulations I considered in this context included Companies Act 2006, Managing Public Money, tax law, employment law, pensions regulations, health & safety law, the Railways Act 1993 and the Railways Act 2005.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Network Rail Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- reviewing Office of Rail and Road notifications in case of any regulatory action.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my report.

Other auditor's responsibilities

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.

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.

Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

Matthew Kay (Senior Statutory Auditor)

18 **November 2022**

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 2022

	Note	2022 Group £m	2021 Group £m
Revenue	3	**9,553**	9,618
Net operating costs	4	**(6,601)**	(6,444)
Operating profit		**2,952**	3,174
Property revaluation movements and profits on disposal		**51**	(5)
Profit from operations	5	**3,003**	3,169
Finance income	8	**1**	1
Other gains and losses	9	**157**	176
Finance costs	10	**(2,844)**	(1,741)
Profit before tax		**317**	1,605
Tax	11	**(1,044)**	(255)
(Loss)/Profit for the year attributable to the owner of the company		**(727)**	1,350

Under section 408 of the Companies Act 2006 the group has elected to take the exemption with regard to disclosing the company income statement. The company's result for the year was a loss of £792m (2021: profit of £1,430m).

Statement of comprehensive income

for the year ended 31 March 2022

	Notes	**2022 Group £m**	2021 Group £m
(Loss)/Profit for the year		**(727)**	1,350
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Gain / (loss) on revaluation of the railway network	13	**1,844**	(1,812)
Actuarial gain/(loss) on defined benefit pension schemes	28	**966**	(621)
Tax relating to components of other comprehensive income	23	**(894)**	462
Total items that will not be reclassified to profit or loss		**1,916**	(1,971)
Items that may be reclassified to profit or loss			
Gain on movement in fair value of cash flow hedge derivatives		**-**	-
Reclassification of balances in the hedging reserve to the income statement		**95**	153
Total items that may be reclassified to profit or loss		**95**	153
Other comprehensive income for the year		**2,011**	(1,818)
Total comprehensive income for the year		**1,284**	(468)

Statement of changes in equity

for the year ended 31 March 2022

Group	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 31 March 2021	**160**	**85**	**1,597**	**1,458**	**(279)**	**6,028**	**9,049**
Loss for the year	-	-	-	-	-	(727)	(727)
Other comprehensive income:							
Impact of tax rate change	-	-	(118)	-	-	(73)	(191)
Revaluation of the railway network	-	-	1,844	-	-	-	1,844
Transfer of deemed cost depreciation from revaluation reserve	-	-	(33)	-	-	33	-
Increase in deferred tax liability on the railway network	-	-	(461)	-	-	-	(461)
Actuarial gain on defined benefit pension schemes	-	-	-	-	-	966	966
Deferred tax on actuarial gain	-	-	-	-	-	(242)	(242)
Transfer between reserves - deferred tax	-	-	8	-	-	(8)	-
Reclassification of balances in hedging reserve to the income statement	-	-	-	-	95	-	95
Total comprehensive income for the year:	-	-	1,240	-	95	(51)	1,284
Balance at 31 March 2022	**160**	**85**	**2,837**	**1,458**	**(184)**	**5,977**	**10,333**

Group	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 31 March 2020	160	85	3,093	1,458	(432)	5,153	9,517
Profit for the year	-	-	-	-	-	1,350	1,350
Other comprehensive income:							
Impact of tax rate change	-	-	-	-	-	-	-
Revaluation of the railway network	-	-	(1,812)	-	-	-	(1,812)
Transfer of deemed cost depreciation from revaluation reserve	-	-	(34)	-	-	34	-
Decrease in deferred tax liability on the railway network	-	-	344	-	-	-	344
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	(621)	(621)
Deferred tax on actuarial loss	-	-	-	-	-	118	118
Transfer between reserves - deferred tax	-	-	6	-	-	(6)	-
Reclassification of balances in hedging reserve to the income statement	-	-	-	-	153	-	153
Total comprehensive income for the year:	-	-	(1,496)	-	153	875	(468)
Balance at 31 March 2021	160	85	1,597	1,458	(279)	6,028	9,049

* Other reserves of £1,458m (2021: £1,458m) include the vesting reserve on privatisation.

Company	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 31 March 2021	**160**	**85**	**1,597**	**1,458**	**(24)**	**5,824**	**9,100**
Loss for the year	-	-	-	-	-	**(792)**	**(792)**
Other comprehensive income:							
Impact of tax rate change	-	-	**(118)**	-	-	**(73)**	**(191)**
Revaluation of the railway network	-	-	**1,844**	-	-	-	**1,844**
Transfer of deemed cost depreciation from revaluation reserve	-	-	**(33)**	-	-	**33**	-
Increase in deferred tax liability on the railway network	-	-	**(461)**	-	-	-	**(461)**
Actuarial gain on defined benefit pension schemes	-	-	-	-	-	**966**	**966**
Deferred tax on actuarial gain	-	-	-	-	-	**(242)**	**(242)**
Deferred tax adjustment to prior year	-	-	**8**	-	-	**(8)**	-
Reclassification of balances in hedging reserve to the income statement	-	-	-	-	**24**	-	**24**
Total comprehensive income for the year:	-	-	**1,240**	-	**24**	**(116)**	**1,148**
Balance at 31 March 2022	**160**	**85**	**2,837**	**1,458**	-	**5,708**	**10,248**

* Other reserves of £1,458m (2021: £1,458m) include the vesting reserve on privatisation.

Company	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 31 March 2020	160	85	3,093	1,458	(28)	4,869	9,637
Profit for the year	-	-	-	-	-	1,430	1,430
Other comprehensive income:							
Impact of tax rate change	-	-	-	-	-	-	-
Revaluation of the railway network	-	-	(1,812)	-	-	-	(1,812)
Transfer of deemed cost depreciation from revaluation reserve	-	-	(34)	-	-	34	-
Decrease in deferred tax liability on the railway network	-	-	344	-	-	-	344
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	(621)	(621)
Deferred tax on actuarial loss	-	-	-	-	-	118	118
Transfer between reserves	-	-	-	-	4	-	4
Transfer deferred tax between reserves	-	-	6	-	-	(6)	-
Total comprehensive income for the year:	-	-	(1,496)	-	4	955	(537)
Balance at 31 March 2021	160	85	1,597	1,458	(24)	5,824	9,100

* Other reserves of £1,458m (2020: £1,458m) include the vesting reserve on privatisation.

Balance sheets

at 31 March 2022

	Notes	2022 Group £m	2021 Group £m	2022 Company £m	2021 Company £m
Assets					
Non-current assets					
Intangible assets	12	**60**	61	**-**	-
Right of use assets	26	**424**	382	**424**	382
Property, plant and equipment – the railway network	13	**75,890**	71,998	**75,890**	71,998
Investment property	14	**212**	212	**212**	212
Investment in subsidiaries	16	**-**	-	**320**	320
Interest in joint ventures	16	**27**	38	**3**	3
Derivative financial instruments	21	**9**	191	**-**	-
Loans to subsidiaries	29	**-**	-	**64**	67
		76,622	72,882	**76,913**	72,982
Current assets					
Assets held for sale	15	**36**	28	**13**	5
Inventories	17	**299**	286	**293**	280
Trade and other receivables	18	**1,631**	1,578	**1,352**	1,187
Current tax assets		**-**	1	**6**	9
Derivative financial instruments	21	**4**	196	**-**	-
Cash and cash equivalents		**477**	522	**161**	289
		2,447	2,611	**1,825**	1,770
Total assets		**79,069**	75,493	**78,738**	74,752
Liabilities					
Current liabilities					
Trade and other payables	19	**(3,664)**	(3,614)	**(3,580)**	(3,443)
Current tax liabilities		**(1)**	-	**-**	-
Borrowings	20	**(2,801)**	(8,157)	**(2,800)**	(8,231)
Derivative financial instruments	21	**(55)**	(83)	**(252)**	(261)
Short-term provisions	22	**(78)**	(95)	**(78)**	(95)
		(6,599)	(11,949)	**(6,710)**	(12,030)
Net current liabilities		**(4,152)**	(9,338)	**(4,885)**	(10,260)
Non-current liabilities					
Borrowings	20	**(53,982)**	(47,308)	**(53,865)**	(46,995)
Derivative financial instruments	21	**(206)**	(565)	**-**	-
Other payables	19	**(410)**	(378)	**(390)**	(360)
Retirement benefit obligation	28	**(2,259)**	(2,899)	**(2,259)**	(2,899)
Deferred tax liabilities	23	**(5,280)**	(3,345)	**(5,266)**	(3,368)
		(62,137)	(54,495)	**(61,780)**	(53,622)
Total liabilities		**(68,736)**	(66,444)	**(68,490)**	(65,652)
Net assets		**10,333**	9,049	**10,248**	9,100
Equity					
Share capital	24	**160**	160	**160**	160
Share premium account		**85**	85	**85**	85
Revaluation reserve		**2,837**	1,597	**2,837**	1,597
Other reserve		**1,458**	1,458	**1,458**	1,458
Hedging reserve		**(184)**	(279)	**-**	(24)
Retained profit		**5,977**	6,028	**5,708**	5,824
Total equity		**10,333**	9,049	**10,248**	9,100

The financial statements on pages 18 to 82 were approved by the board of directors on 20 October 2022 and authorised for issue on the date of the auditor's report. They were signed on 18 November 2022 on its behalf by:

Andrew Haines, Director

Jeremy Westlake, Director

Company number: 02904587

Statement of cash flows

for the year ended 31 March 2022

	Note	**2022 Group £m**	2021 Group £m	**2022 Company £m**	2021 Company £m
Cash flow from operating activities					
Cash generated from operations	25	**5,278**	5,476	**5,245**	5,301
Interest paid*		**(1,232)**	(1,354)	**(1,200)**	(1,204)
Income tax received			(52)		(39)
Net cash flows generated from operating activities		**4,046**	4,070	**4,045**	4,058
Investing activities					
Interest received		**1**	1	**1**	2
Purchases of property, plant and equipment		**(6,182)**	(5,894)	**(6,182)**	(5,892)
Proceeds on disposal of property		**82**	41	**82**	45
Capital grants received		**2,131**	1,978	**2,131**	1,975
Net cash outflows from joint ventures		**11**	3	**-**	-
Loan to subsidiaries		**-**	-	**3**	(1)
Net cash used in investing activities		**(3,957)**	(3,871)	**(3,965)**	(3,871)
Financing activities					
Repayments of borrowings		**(8,060)**	(10,991)	**(7,630)**	(9,991)
New loans raised		**7,888**	10,841	**7,888**	10,841
Decrease in collateral posted		**114**	165	**-**	-
(Decrease) /increase in collateral held		**(105)**	(15)	**-**	-
Repayments of lease liabilities		**(133)**	(107)	**(133)**	(97)
Movement in intercompany borrowings		**-**	-	**(263)**	(799)
Cash flow on settlement of derivatives		**162**	-	**-**	-
Increase/(Decrease) in bank overdraft		**-**	-	**(70)**	(87)
Net cash used in financing activities		**(134)**	(107)	**(208)**	(133)
Net movement in cash and cash equivalents		**(45)**	92	**(128)**	54
Cash and cash equivalents at beginning of the year		**522**	430	**289**	235
Cash and cash equivalents at end of the year		**477**	522	**161**	289

* Balance includes the net interest on derivative financial instruments

Notes to the financial statements

for the year ended 31 March 2022

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 and its subsidiaries' (together 'the group' or 'Network Rail') principal activities are detailed in the strategic report on pages 2 to 9.

The company's immediate 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. Significant accounting policies

Basis of accounting

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Network Rail Limited transitioned to UK-adopted International Accounting Standards in its company financial statements on 1 April 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of Network Rail Infrastructure Limited have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of the rail 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.

Functional and presentation currency

The financial statements are presented in Pound Sterling (£) which is the functional and presentation currency of Network Rail Infrastructure Limited. All values are rounded to the nearest million pounds (£m) unless otherwise stated.

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 2021.

The company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2021:
- Definition of Material – Amendments to IAS 1 and IAS 8
- Revised Conceptual Framework for Financial Reporting.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

Notes to the financial statements

for the year ended 31 March 2022

2. Significant accounting policies (continued)

IFRS 17 Insurance Contracts

IFRS 17 issued in May 2018, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. It introduces a new comprehensive model (general model) for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts such as reinsurance contracts, direct participating contract and investment contracts with discretionary participation features.

IFRS 17 Insurance Contracts is effective for years beginning on or after 1 January 2023 with restated comparatives. Management have entered into a process of assessing the impact on the financial statements of the Group; initial work has not identified any indications that the impact will be material. The assessment is not finalised and therefore the overall and financial impact is not yet known. More knowledge of the impact of implementing the standard on the Group will be known at the next financial reporting date.

Business segments

No segmental analysis is provided because the group 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 directors took into account the publication of the Williams-Shapps Plan for Rail Review and its plans to reform the rail industry. This proposes that, commencing in 2024, a new public body, Great British Railways, will integrate the railways, owning the infrastructure, collecting fare revenue, running, and planning the network, and setting most fares and timetables. It is planned that Network Rail will be absorbed into the public body to bring about single, unified, and accountable leadership for the national network. At this stage it is not likely that this reform will involve the winding up of Network Rail Infrastructure Limited (NRIL) but in any event Great British Railways will assume the existing functions of NRIL as well as have a wider range of powers and functions. The transformation programme is dependent on further activities including legislation and will take time to fully deliver. The impact of this programme on the structure of the group and hence NRIL are currently not known and have therefore not led to any impact on the going concern assessment of NRIL.

The group 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. Network Rail Infrastructure Limited has secured a £31.9bn loan facility with the Department for Transport (DfT), which it intends to draw upon to specifically refinance its existing debt. 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 group and its business model to the potential impact of the group'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 27 to the accounts includes the group'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.

After making enquiries, including those detailed above, the directors have a reasonable expectation that the company and the group have 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.

Notes to the financial statements

for the year ended 31 March 2022

2. **Significant accounting policies** (continued)

Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity / to direct the activities of the entity. Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions. In terms of subsidiaries the group:
• Consolidates subsidiaries from the date on which control passes to the group and deconsolidates from the date control ceases.
• Changes the accounting policies of subsidiaries, where necessary, to ensure consistency with the policies adopted by the group.
• Eliminates intercompany transactions and balances in the group results.

Revenue recognition

The group 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 IFRS 16 (See "Leases" accounting policy); 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.

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.

Revenue measurement 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.

The disaggregation of revenue by source has been disclosed under Note 3.

Notes to the financial statements

for the year ended 31 March 2022

2. Significant accounting policies (continued)

Grants

Network Rail receives grant funding as a contribution towards both its revenue and capital expenditure.

Revenue Grants are received as a contribution towards Network Rail's running costs and are accounted for in accordance with IAS 20 Government grants. These grants are drawn down by Network Rail against grant agreements based on forecast cash flows of relevant expenditure and are deferred until that expenditure is incurred. Deferred grant income is then credited to revenue on a systematic basis during the period in which Network Rail recognises the related costs as expenses for which the grants are intended to compensate.

Grants related to operations, maintenance and renewals are recognised in-year. Grant income has been agreed across the five-year funding settlement and is drawn down to augment the other sources of revenue in meeting the in-year operations, maintenance and renewals expenses. Operations and maintenance expenditure passes directly through the Income Statement. Expenditure on renewals is instead treated as an addition to PPE since replacing elements of the network is within the scope of IAS 16; however, because the network is carried on a fair value basis with reference to the Regulatory Asset Base, and the Regulator allows for the amortisation of renewals in-year, any such PPE additions are also expensed in year. This expense is taken through Other Comprehensive Income as part of the revaluation of PPE in line with IAS 16 requirements. In line with this, the renewals related element of the network grant is (like operations and maintenance) credited to the Income Statement in the year of the relevant additions and revaluation; no expense remains to be recognised following the revaluation entry since the additions-related asset element has been eliminated through that revaluation. Until the revaluation reserve in relation to the railway network asset is fully utilised, this difference in in-year income and expense will result in the difference between in-year capitalised renewals and the depreciation charge (which is also subject to the same revaluation effect since it is out of scope for the RAB) representing an impact on profit or loss. In 2021-22 the net effect of this was of a £1.8bn credit (2020-21: £1.9bn credit) to the Income Statement.

Capital Grants are received as contributions towards the cost of property, plant and equipment from DfT, Transport Scotland (TS) and Third Parties. Network Rail draws down Capital Grants from DfT and TS based on historical costs incurred in order to meet future forecasts cash flows. Third Parties are invoiced for Capital Grants either in advance or arrears based on individual grant agreements. Capital Grants are recognised in the same period as the additions they are intended to fund and are deducted from the fair value of those assets. Capital grants are then credited to the income statement over the economic useful life of the rail network as the related costs are recognised.

Leases

The group as lessor

The group assesses leases where it is lessor in order to determine whether the lease is an operating lease or a finance lease. This assessment is made where the group owns the asset being leased or the group itself is also leasing the asset and hence the lease being assessed is a sub-lease. The assessment considers whether the lease transfers substantially all of the risks and rewards incidental to ownership of the asset being leased. Where the lease is a sub-lease, this assessment is made by reference to the Right of Use asset the group has for the head-lease. If the lease transfers substantially all of the risks and rewards incidental to ownership, then the lease is classified as a finance lease. If it does not, then the lease is classified as an operating lease.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group'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 group'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.

Notes to the financial statements

for the year ended 31 March 2022

2. Significant accounting policies (continued)

The group as lessee

For those leases of not less than 12 months or low value, the Right of Use (ROU) asset and Lease liability are initially measured on a present value basis.

The present value of the following lease payments is used to determine the value of the lease liability:
- fixed payments less any lease incentive receivable
- variable lease payments that depend on an index or a rate
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. Remeasurement of the lease liability occurs if there is a change in the lease payments (when a corresponding adjustment is made to the ROU asset), the lease term or in the assessment of an option to purchase the underlying asset.

The discount rate used to discount the lease payments is the Group's incremental borrowing rate. This is the rate that the group would have to pay to borrow similar funds to fund a similar asset. ROU assets are initially measured at the same amount as the lease liability plus any initial direct costs.

Each ROU asset is depreciated over the shorter of its useful life and the lease term on a straight-line basis. Payments associated with short-term leases and low value leases are recognised on a straight-line basis as an expense in profit or loss.

The company is responsible for infrastructure works from the supply chain, rather than the right to use specific assets. As a result of this, most supply chain assets are generally not 'identified' within the meaning of IFRS 16. As a result, the company does not generally retain the rights to direct the how and for what purpose specific assets are used

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. 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.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Borrowing costs

All 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.

Notes to the financial statements

for the year ended 31 March 2022

2. Significant accounting policies (continued)

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 current service cost and plan administration expenses are recognised as an operating expense in the consolidated income statement.
The group'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.

The net interest cost is the charge in the year on the net defined benefit liability. The charge reflects the passage of time and is recognised as a finance cost in the income statement.

Past service cost and credits are recognised immediately in the consolidated income statement.

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.
The group reflects its share of the deficit 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 28.

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.

Tax

The tax expense represents the sum of the current tax and deferred tax. The group's current tax liability is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date Current tax is based on the taxable results of the group 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 accounts. Deferred tax is 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 is not discounted

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 accounted for within equity.

Notes to the financial statements

for the year ended 31 March 2022

2. Significant accounting policies (continued)

Property, plant and equipment – the railway network

The group has one class of property, plant and equipment, being the railway network. This is the integrated network that the group 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 group has derived the fair value of the railway network using an income approach. The income approach assesses the discounted future cash flows that are 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 (2021: 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 13. 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.

Intangible assets

An intangible asset is only recognised if it is probable that future economic benefits will flow to the group and its costs can be measured reliably. Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Licences and concessions are amortised over the length of their contractual agreement. Intangible assets are tested for impairment at each balance sheet date by comparing their carrying value and the expected discounted cash flows expected to arise from them over their contractual agreements. If the carrying value exceeds the discounted cash flows expected to arise from the assets, the carrying value would be impaired accordingly.

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.

Notes to the financial statements

for the year ended 31 March 2022

2. Significant accounting policies (continued)

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.

Investment in subsidiaries

Investments in subsidiary undertakings 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.

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 group's balance sheet when the group 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 Fair Value Through Profit and Loss (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 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 group's exposure to credit risk is limited largely to property rental income, and no significant increase in credit risk has materialised. Therefore, the group 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 year.

Notes to the financial statements

for the year ended 31 March 2022

2. Significant 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 group, commercial paper and money market deposit investments at varying rates. The carrying amount of these assets approximates their fair value.

Joint ventures

The results and net assets of joint ventures are incorporated in the group financial statements using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost and adjusted by post-acquisition changes in the group's share of net assets of joint ventures, less any impairment in the value of individual investments. Losses of a joint venture in excess of the group's interest in a joint venture are not recognised.

Financial liabilities

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

Financial liabilities at Fair Value Through Profit and Loss (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 group derecognises financial liabilities when, and only when, the group'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.

Certain bonds, as set out in Note 20, are designated at FVTPL. These bonds are hedged by derivative financial instruments as part of a documented risk management strategy. By recognising these bonds and derivatives at FVTPL the recognition inconsistencies that would otherwise exist with regard to these risk management strategies are significantly reduced.

Intra-group borrowings – Network Rail Infrastructure Finance (NRIF) provides the Network Rail group with funding and passes all transactions and balances through the intra-group borrowings to NRIL. Existing debt, derivatives and related interest payments within NRIF are passed onto NRIL in the form of an intercompany loan.

Notes to the financial statements

for the year ended 31 March 2022

2. Significant accounting policies (continued)

Trade payables

Trade payables are ordinarily not interest bearing and are stated at amortised cost.

Derivative financial instruments and hedge accounting

The group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The group has previously issued interest rate swaps, cross-currency swaps and foreign exchange forward contracts to hedge these exposures. The use of financial derivatives is governed by the group's policies approved by the treasury committee of the board, which provide written principles on the use of financial derivatives.
All the hedged events have now occurred and there will be no new hedging programme.

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 group 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 group 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 group's financial risk management policies, do not qualify for hedge accounting and are therefore classified as financial instruments at FVTPL. 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.

Cash flow hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised or no longer meets the criteria for hedge accounting. The latter case occurs most often in practice, principally when the hedged event has occurred, terminating the economic relationship between the derivative and the hedged item. In such cases the cumulative gain or loss on the hedging instrument that remains in equity from the period where the hedge was effective (i.e., the hedging reserve balance) is amortised from to profit and loss in line with the periods in which the hedged cash flows – predominantly finance costs in respect of hedged debt issuances – affect profit and loss. In cases where the forecast transaction is no longer expected to occur, or an irrecoverable loss is assessed to have occurred, the hedging reserve balance is immediately recognised in the income statement. Cumulative losses in the hedging reserve following the passage of a hedged event, such as hedging the rate at which debt is issued using interest rate swaps, are offset by a favourable financial effect from correspondingly lower cash flows arising on interest from the issued debt.

Embedded derivatives within a financial asset host contract are not separated from the host contract, instead, the whole contact 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. There are no separated embedded derivatives included in the financial statements.

Note 21 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.

Notes to the financial statements

for the year ended 31 March 2022

2. Significant accounting policies (continued)

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 group has a present obligation as a result of a past event, and it is probable that the group 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.

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 group'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.

In addition, disposals from railway network in the last two years have been in line with the carrying value of the railway network. This emphasises that the valuation approach undertaken in these accounts remains appropriate.

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 the requirements of the Regulatory Accounting Guidelines (issued by ORR) 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 13.

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 13.

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 40 years as the weighted average remaining life.

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 19) 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-

Notes to the financial statements

for the year ended 31 March 2022

2. Significant accounting policies (continued)

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. Further details are set out in Note 14.

(iii) **Retirement benefit obligations** – the group 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 28. 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 group and the members, respectively. The group reflects its share of the contribution in the financial statements.

(iv) **Taxation** – the group 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.

3. Revenue

	2022 Group £m	2021 Group £m
Grant income	**6,513**	6,642
Franchised network access	**2,768**	2,815
Freight revenue	**53**	45
Property rental income	**177**	81
Other income	**42**	35
Revenue for the year	**9,553**	**9,618**

The effect of the performance regimes was a net profit of £182m (2021: net profit of £329m) which led to an increase in revenue of the respective amount. The performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

The group 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.

Notes to the financial statements

for the year ended 31 March 2022

3. Revenue (continued)

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

	2022 Group £m	2021 Group £m
Employee costs (see note 6)	**2,975**	2,802
Own costs capitalised	**(1,061)**	(1,102)
Other external charges (including maintenance costs)	**3,055**	3,084
Other operating income and recoveries	**(326)**	(304)
Net operating costs before depreciation and amortisation	**4,643**	**4,480**
Depreciation (see note 13 and 26)	**2,198**	2,093
Capital grants amortised	**(240)**	(129)
Net operating costs	**6,601**	**6,444**

5. Profit from operations

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

	2022 Group £m	2021 Group £m
Amortisation of intangible assets	**1**	1
Research and development costs	**38**	50
Profit on sale of properties	**(19)**	-
Decrease/(Increase) in the fair value of investment properties	**(32)**	5
Cost of inventories recognised as an expense	**169**	179
Write down of inventories recognised as an expense	**5**	9
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	**0.49**	0.47
Fees payable to the company's auditors for other audit related services:		
- The audit of the company's subsidiaries	**0.06**	0.06
- Regulatory accounts audit and interim review	**0.07**	0.06
Total amounts payable to auditors	**0.62**	0.59

Notes to the financial statements

for the year ended 31 March 2022

5. Profit from operations (continued)

The 2021 Cost of inventories recognised as an expense has been restated due to refined analysis. In the financial years ended 31 March 2022 and 2021 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 £0.2m 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.

6. Employee costs

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

	2022 Group	2021 Group
Management and operation of the railway	**44,255**	44,356

Group	**2022 Group £m**	2021 Group £m
Their aggregate remuneration comprised:		
Wages and salaries	**2,311**	2,269
Social security costs	**261**	243
Defined contribution pension costs (see note 28)	**24**	24
Defined benefit pension costs – current service costs (see note 28)	**379**	266
	2,975	2,802

7. Directors' remuneration

	2022 Group £m	2021 Group £m
Total directors' emoluments (including non-executive directors)	**2**	2
Post-employment benefits - contributions to money purchase pension schemes	**-**	-
	2	2

In the year ended 31 March 2022 and 31 March 2021 the key management personnel were comprised of the chair of the board of directors and two executive directors.
The aggregate short-term employee benefits payable to these directors totalled £1.3m (2021: £1.2m) and aggregate post-employment benefits payable of £0.04m (2021: £0.03m). 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 2022

8. Finance income

	2022 Group £m	2021 Group £m
Interest receivable on Finances and deposits (included in borrowings)	**1**	1
	1	1

Finance income earned on financial assets analysed by category of asset is as follows:

Loans and receivables (including cash and bank balances)	**1**	1
	1	1

9. Other gains and losses

	2022 Group £m	2021 Group £m
Net ineffectiveness arising from cash flow hedge accounting	-	20
Fair value loss on fair value hedges	-	(4)
Fair value gain on carrying value of fair value hedged debt	-	-
Loss arising from fair value hedge accounting	-	(4)
Net increase / (decrease)in fair value of non-hedge accounted debt	-	30
Gain on derivatives not hedge accounted	**157**	130
Gain arising from non-hedge accounting	**157**	160
Total other gains	**157**	176

No other gains and losses have been recognised in respect of financial assets or liabilities 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.

The movement in fair value of debt designated as fair value through profit and loss and exchange differences on retranslation of foreign currency debt that form part of the above total other gains and losses are in relation to debt issuances disclosed in Note 20.

Notes to the financial statements

for the year ended 31 March 2022

10. Finance costs

	2022 Group £m	2021 Group £m
Interest on bank loans and overdrafts	**26**	14
Interest on loan issued by Department of Transport	**611**	637
Interest on bonds issued under the Debt Issuance Programme	**1,987**	851
Interest on derivative instruments	**149**	184
Defined benefit pension interest cost (see note 28)	**60**	44
Debt Issuance Programme financial indemnity fee	**-**	-
Interest on leases	**11**	11
Total finance costs	**2,844**	1,741

Notes to the financial statements

for the year ended 31 March 2022

11. Tax

The tax charge is made up as follows:

	2022 Group £m	2021 Group £m
Current tax:		
Corporation tax (charge)/ credit	-	(88)
Less advance corporation tax set-off	-	37
Corporation tax liability	-	(51)
Adjustment in respect of prior years	**(3)**	-
Total current tax charge	**(3)**	(51)
Deferred tax:		
Current year charge	**(97)**	(174)
Effect of rate change	**(883)**	-
Adjustment in respect of prior years	**(61)**	(30)
Total deferred tax charge	**(1,041)**	(204)
Total tax charge	**(1,044)**	(255)

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

	2022 Group £m	2021 Group £m
Profit before tax	**317**	1,605
Tax charge on profit 19 per cent (2021: 19 per cent)	**(60)**	(305)
Adjustment in respect of prior years	**(64)**	(30)
Effect of rate change	**(883)**	-
Expenditure not subject to tax	**(12)**	43
De-recognition of tax assets – brought forward	**(25)**	-
Utilisation of tax losses previously not recognised as a tax asset		-
Advance corporation tax previously not recognised as a tax asset		37
Total tax charge for the year	**(1,044)**	(255)

Notes to the financial statements

for the year ended 31 March 2022

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 2021, 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. Network Rail uses all its profits to fund capital expenditure. Following the Budget in March 2021, Network Rail will be able to claim the "super allowance" deduction on certain capital expenditure. Management's current assessment is that it is likely that these capital allowances will mean there is no significant taxable income for the two years to 31 March 2023. In that year then, capital allowances will cover the taxable profit and mean that there is no expected need for use of losses. Beyond the current funding regime, there is no certainty over the funding mechanism of Network Rail and hence the use of any losses.

The Group did not utilise any ACT asset in the financial year (2021: utilised surplus of ACT asset of £36.9m).

Deferred tax at 31 March 2022 is calculated at a rate of 25 per cent (2021: 19 per cent) based on tax rate expected to prevail based on legislative enactments at the point temporary differences resolve. The change in tax rate from 19 per cent to 25 per cent was a result of the Finance Act 2021. The Finance Act 2021 was not substantively enacted at 31 March 2021 and only became substantively enacted during the year ended 31 March 2022. The amount at which temporary differences crystallise is sensitive to the decisions on future tax laws to be taken by Parliament.

UK corporation tax is calculated at 19 per cent (2021: 19 per cent). From the statutes of the Finance Act 2021 the corporation tax rate will increase to 25 per cent with effect from 1 April 2023.

12. Intangible assets

Group	**Concession £m**
Cost	
At 1 April 2020, 31 March 2021 and 31 March 2022	**78**
Accumulated amortisation	
At 31 March 2020	**(16)**
Charge for the year	(1)
At 31 March 2021	**(17)**
Charge for the year	(1)
At 31 March 2022	**(18)**
Carrying amount	
At 31 March 2022	**60**
At 31 March 2021	**61**

The intangible asset relates to the St Pancras Concession Agreement which expires on 29 July 2086 is held by the wholly owned company Network Rail (High Speed) Limited. The initial cost of the intangible was the purchase price of the concession agreement, which covers the right to run station operations including the retention of revenues from station retail.

Intangible assets are being amortised over the life of the licence of 83 years to 2086. Amortisation is charged to net operating costs in the income statement.

Notes to the financial statements

for the year ended 31 March 2022

13. Property, plant and equipment – the railway network

Group	Group assets £m	Group capital grants deferred £m	Group carrying value £m
Valuation			
At 31 March 2020	78,690	(6,881)	71,809
Additions – Enhancements	2,029	(2,029)	-
Additions - Renewals	3,899	-	3,899
Total Additions	**5,928**	**(2,029)**	**3,899**
Disposals	(30)	-	(30)
Transfers to held for sale	-	-	-
Transfer to investment property	(5)	-	(5)
(Depreciation charge)/ grant amortisation for the year	(1,992)	129	(1,863)
Revaluation in the year	(1,812)	-	(1,812)
At 31 March 2021	**80,779**	**(8,781)**	**71,998**
Additions – Enhancements	2,200	(2,200)	
Additions - Renewals	3,939		3,939
Total Additions	**6,139**	**(2,200)**	**3,939**
Disposals	(27)		(27)
Transfers to held for sale	-	-	-
Transfer to investment property	(11)	-	(11)
(Depreciation charge)/ grant amortisation for the year	(2,093)	240	(1,853)
Revaluation in the year	1,844	-	1,844
At 31 March 2022	**86,631**	**(10,741)**	**75,890**

Company	Assets £m	Capital grants £m	Carrying Value £m
Valuation			
At 31 March 2020	78,690	(6,881)	71,809
Additions – Enhancements	2,029	(2,029)	-
Additions - Renewals	3,899	-	3,899
Total Additions	**5,928**	**(2,029)**	**3,899**
Disposal	(30)	-	(30)
Transfer to investment property	(5)	-	(5)
(Depreciation charge)/ grant amortisation for the year	(1,992)	129	(1,863)
Revaluation in the year	(1,812)	-	(1,812)

Notes to the financial statements

for the year ended 31 March 2022

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

At 31 March 2021	**80,779**	**(8,781)**	**71,998**
Additions – Enhancements	2,200	(2,200)	-
Additions - Renewals	3,939	-	3,939
Additions	**6,139**	**(2,200)**	**3,939**
Disposal	(27)	-	(27)
Transfer to investment property	(11)	-	(11)
(Depreciation charge)/ grant amortisation for the year	(2,093)	240	(1,853)
Revaluation in the year	1,844	-	1,844
At 31 March 2022	**86,631**	**(10,741)**	**75,890**

Given the economic and physical interdependency of the assets comprising the rail network, the group 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 group 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:

a) The regulator's assessment of the efficient costs of operating and maintaining the network

b) An allowance for Regulatory Asset Base (RAB) amortisation – qualifying capital expenditure is added to the RAB as incurred and recovered by the group through future amortisation allowances (in order to spread the cost to customers and stakeholders of investment in the rail network over many years).

c) 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.

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 group'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

Notes to the financial statements

for the year ended 31 March 2022

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

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.

Revaluation

The valuation includes a £1,844m upward movement in the value of the railway. There are 2 key drivers for the valuation, being the difference between:

- The impact of indexation inflation (£3.7bn increase in the valuation)
- The rate at which assets are amortised in the RAB and assets are depreciated under IAS 16 (£1.8bn decrease in the valuation.)

Indexation inflation was based on the November CPI, of 5.1 per cent.

Grant income has been agreed across the five-year funding settlement and is drawn down to augment the other sources of revenue in meeting the in-year operations, maintenance and renewals expenses. Operations and maintenance expenditure passes directly through the Income Statement. Expenditure on renewals is instead treated as an addition to PPE since replacing elements of the network is within the scope of IAS 16; however, because the network is carried on a fair value basis with reference to the Regulatory Asset Base, and the Regulator allows for the amortisation of renewals in-year, any such PPE additions are also expensed in year. This expense is taken through Other Comprehensive Income as part of the revaluation of PPE in line with IAS 16 requirements. In line with this, the renewals related element of the network grant is (like operations and maintenance) credited to the Income Statement in the year of the relevant additions and revaluation; no expense remains to be recognised following the revaluation entry since the additions-related asset element has been eliminated through that revaluation. Until the revaluation reserve in relation to the railway network asset is fully utilised, this difference in in-year income and expense will result in the difference between in-year capitalised renewals and the depreciation charge (which is also subject to the same revaluation effect since it is out of scope for the RAB) representing an impact on profit or loss. In 2021-22 the net effect of this was of a £1.8bn credit (2020-21 year end: £1.9bn credit) to the Income Statement.

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.

Disposals

The disposals of £27m were as the result of property sales in the usual course of business. In line with Regulatory Accounting Guidelines the net proceeds of sales are deducted from the RAB, reducing the valuation of the Railway Network Valuation. The valuation of the disposals is assessed as being equal to the reduction in the valuation of the Railway Network relating to property sales.

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

Notes to the financial statements

for the year ended 31 March 2022

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

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 (2020: 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.

Group and company	Change in cost of capital (basis points)	**31 March 2022**	31 March 2021
Change in fair value	25 basis points	**£332m**	£483m
	50 basis points	**£666m**	£967m
% Change in fair value	25 basis points	**0.4%**	0.7%
	50 basis points	**0.9%**	1.3%
Change in annual depreciation charge	25 basis points	**£8m**	£12m
	50 basis points	**£17m**	£24m

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 2022 the valuation included £200m (31 March 2021: £475m) of projected financial underperformance, which is expected to crystallise in the income statement over the next two years. During the year, post pandemic travel behaviours and trends and their impact on performance have continued to be monitored in arriving at the assumptions. The result of this review is that there is no significant change in the expected underperformance for the remaining years of the Control Period prior to a refreshed determination. As there is no significant change in underlying performance, the crystallisation of underperformance and the minor

Notes to the financial statements

for the year ended 31 March 2022

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

adjustments to expected underperformance are the key drivers in the reduction from £475m to £200m.

Measures taken to change franchise contracts by both DfT and Transport Scotland has allowed train operating companies to continue to settle amounts owed to Network Rail as they fall due.

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).

e) The RAB includes historic expenditure on the group'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 14 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 2022 includes a downwards adjustment of £224m to exclude the fair value of investment property and assets held for sale (31 March 2021: £216m).

f) When considering the appropriateness of the valuation methodology, the Directors took into account the publication of the Williams-Shapps Plan for Rail Review and its plans to reform the rail industry. The directors concluded that the current methodology remained appropriate. In considering this, the directors noted that disposals from the railway network in the last two years have been in line with the carrying value of the railway network. This emphasises that the valuation approach undertaken in these accounts remains appropriate.

At 31 March 2022 the group had entered into contractual commitments in respect of capital expenditure amounting to £3,631m (2021: £2,716m).

We have classified the valuation of the rail network as Level 3 under IFRS 13.

Notes to the financial statements

for the year ended 31 March 2022

14. Investment property

Group and company	£m
Valuation	
At 31 March 2020	227
Additions	-
Disposals	(11)
Transfers (to)/from PPE	5
Transfers (to)/from assets held for sale	(4)
Increase / (decrease) in fair value in the year	(5)
At 31 March 2021	**212**
Additions	1
Disposals	(36)
Transfers (to)/from PPE	11
Transfers (to)/from assets held for sale	(8)
Increase / (decrease) in fair value in the year	32
At 31 March 2022	**212**

The market values of the group's investment properties at 31 March 2022 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 group. Network Rail 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 apply yields provided by Jones Lang LaSalle to these beacon categories. Jones Lang LaSalle will also value specific properties, as instructed by Network Rail.

Management is 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 group'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 15 one-off individual properties (2021: 13), amounting to 47 per cent (2021: 48 per cent) of the total valuation. The balance of the estate was valued under the Beacon method by splitting the portfolio into 18 homogeneous classes (2021: 18) 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.

The property rental income earned by the group from assets categorised at the yearend as investment property, all of which is leased out under operating leases, amounted to £12.9m (2021: £9.7m). Direct operating expenses arising on the investment properties in the year amounted to £3m (2021: £3.2m).

The group's investment properties are let on a tenant repairing basis. The group'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.

Notes to the financial statements

for the year ended 31 March 2022

14. Investment property (continued)

Group and company	Fair value at 31 March 2022 £m	Estimated rental value per sq. ft Minimum £	Maximum £	Weighted Average £	Equivalent yield Minimum %	Maximum %	Weighted Average %
Valuation technique:							
One-off valuation	**99**	**0.39**	**148.04**	6.12	3.5	12.2	6.2
Beacon method*	**113**	**n/a**	**n/a**	n/a	4.3	14.5	8.6

* 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 are 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.

15. Assets held for sale

Group and company	**2022 Group £m**	2021 Group £m	**2022 Company £m**	2021 Company £m
At 1 April	**28**	24	**5**	1
Transfer from investment property	**8**	4	**8**	4
Transfers from property, plant and equipment	**-**	-	**-**	-
Disposals	**-**	-	**-**	-
At 31 March	**36**	28	**13**	5

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

16. Investment in subsidiaries and joint ventures

Company	**2022 £m**	2021 £m
Beginning of year	**320**	320
Additions in year	**-**	-
Disposals in the year	**-**	-
End of year	**320**	320

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.

The subsidiaries in the consolidated financial statements are included in the list below.

Notes to the financial statements

for the year ended 31 March 2022

Subsidiaries	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Network Rail Insurance Limited	Guernsey	100%	Insurance company.
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. Solum is a property development business.
Network Rail Pension Trustee Limited	Great Britain	Company limited by guarantee	Administration of defined contribution and CARE defined benefit pension schemes.
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
Network Rail (Stations) Limited	Great Britain	100%	Non trading company
Network Rail International Limited [formerly known as Network Rail (Projects) Limited]	Great Britain	100%	Dormant
NR Corporate Secretary Limited	Great Britain	100%	The company provides secretarial services to other companies within the Network Rail group
Network Rail Property Limited	Great Britain	100%	Dormant
Victoria Place Shopping Centre Ltd	Great Britain	100%	Non trading company
Spacia (2002) Ltd	Great Britain	100%	Dormant
Railway Property Ltd	Great Britain	100%	Dormant
Network Railway (Spacia) Limited	Great Britain	100%	Dormant
Kew Bridge Manco Limited	Great Britain	Company limited by guarantee	Dormant
Railway Safety & Standards	Great Britain	Company limited by guarantee	Dormant
Great British Railways Consulting Limited [formerly Network Rail (Assets) Limited]	Great Britain	Company limited by guarantee	Non trading (formerly used for Other business support activities)

Shares held by a trustee			
Network Rail Infrastructure Finance PLC	Great Britain	Intertrust Corporate Services Limited	Issuer of the Debt Issuance Programme
Network Rail MTN Finance Limited	Great Britain	Intertrust Corporate Services Limited 99.998%, Intertrust Nominees limited 0.002% (1 share)	PLC acting as issuer of NR's Medium Term Note ('MTN') Programme. (Dormant)

Notes to the financial statements

for the year ended 31 March 2022

16. Investment in subsidiaries and joint ventures (continued)

The shares in Network Rail Infrastructure Finance PLC are held by Intertrust Corporate Services Limited, for charitable purposes. The sole purpose of this company is to act as a special purpose funding vehicle. The company is treated as a subsidiary for accounting purposes as proceeds from debt issuances are lent on to Network Rail Infrastructure Limited and are used to finance the activities and to refinance the existing debt of the group.

Network Rail Infrastructure Limited is a member of Newcastle NE1 Limited. Newcastle NE1 Limited is a not-for-profit limited company (by guarantee); NRIL's liability as a member is limited to an amount not exceeding £1. The company is a Business Improvement District representing several businesses in Newcastle.

Joint ventures accounted for by the equity accounting method in the financial statements are included in the table below.

Joint ventures	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Innova Investment Partnership GP Limited	Great Britain	50%	Hold 0.1% in Innova Investment Limited Partnership
Innova Investment Limited Partnership	Great Britain	49.95%	Property development
West Hampstead Square LLP	Great Britain	50%	Property development
Blocwork LLP	Great Britain	50%	Property development
Blocwork (Henley) LLP	Great Britain	50%	Property development
Blocwork Projects LLP	Great Britain	50%	Property development
The Station Office Network LLP	Great Britain	50%	Provides flexible office space, meeting rooms and virtual offices
Solum Regeneration Epsom (GP) Limited	Great Britain	50%	Hold 0.1% in Solum Regeneration (Epsom) Limited Partnership
Solum Regeneration (Epsom) Limited Partnership	Great Britain	49.95%	Property development
Solum Regeneration (Haywards) LLP	Great Britain	50%	Property development
Solum Regeneration (Guildford) LLP	Great Britain	50%	Property development
Solum Regeneration (Twickenham) LLP	Great Britain	50%	Property development
Solum Regeneration (Bishops) LLP	Great Britain	50%	Property development
Solum Regeneration (Surbiton) LLP	Great Britain	50%	Property development
Solum Regeneration Holding 2 LLP	Great Britain	50%	Property development
Solum Regeneration (Maidstone) LLP	Great Britain	50%	Property development
Solum Regeneration (Walthamstow) LLP	Great Britain	50%	Property development
Solum Regeneration (Redhill) LLP	Great Britain	50%	Property development
Solum Regeneration (Kingswood) LLP	Great Britain	50%	Property development
Solum Regeneration Holding 1 LLP	Great Britain	50%	Property development

Notes to the financial statements

for the year ended 31 March 2022

16. Investment in subsidiaries and joint ventures (continued)

The movement in the investment in joint venture is as follows:

	2022 Group £m	2021 Group £m
At 1 April	**38**	41
Investment in joint ventures	**8**	5
Equity Repayment	**(13)**	-
Share of profit/(loss)	**(6)**	(8)
At 31 March	**27**	38

17. Inventories

	2022 Group £m	2021 Group £m	2022 Company £m	2021 Company £m
Raw materials and consumables	**299**	286	**293**	280

As at 31 March 2022 a provision of £29m (2021: £31m) was held in respect of inventories for the group and the company provision was £25m (2021: £27m).

18. Trade and other receivables

	2022 Group £m	2021 Group £m	2022 Company £m	2021 Company £m
Current assets: trade and other receivables				
Trade receivables:				
- receivable from contracts with other customers	**321**	236	**325**	240
- receivable from agreements with government	**-**	-	**-**	-
- receivable from property portfolio customers	**124**	134	**124**	134
Capital grants receivable	**486**	394	**486**	394
Other taxation and social security	**148**	150	**152**	151
Collateral receivable	**255**	369	**-**	-
Other receivables	**50**	70	**15**	30
Prepayments and accrued income	**76**	80	**83**	95
Accrued income:				
- receivable from contracts with other customers	**121**	115	**121**	115
- receivables from property portfolio customers	**50**	30	**46**	28
Total	**1,631**	**1,578**	**1,352**	**1,187**

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 include an allowance for estimated irrecoverable amounts from the supply of services of £43m (2021: £45m). This allowance has been made by reference to past default experience. Past default experience is adjusted for forward looking information where relevant. The group and company provide fully for

Notes to the financial statements

for the year ended 31 March 2022

18. Trade and other receivables (continued)

receivables overdue by over six months. The group average debtor days were 49 days (2021: 49 days) and for the company, the average debtor days were 49 days (2021: 49 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 group and company's credit risk are primarily attributable to its trade receivables. Around 97 per cent of the group and 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 group 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. Measures taken to change franchise contracts by both DfT and Transport Scotland during the global pandemic have allowed train operating companies to continue to settle amounts owed to Network Rail as they fall due. 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 group and company's trade receivable balance are amounts totalling £62m (2021: £51m) 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 group and company do not hold collateral over these balances. The average age of these receivables is 23 days (2021: 22 days).

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

	2022 Group £m	2021 Group £m	**2022 Company £m**	2021 Company £m
Past due by 1-28 days	**43**	40	**43**	40
Past due by 29-56 days	**11**	9	**11**	9
Past due by 57-84 days	**3**	3	**3**	3
Past due by 85-180 days	**17**	19	**17**	19
	74	71	**74**	71

Trade receivables of £30m (2021: £26m) are overdue by six months or more and have been fully provided for.

19. Trade and other payables

	2022 Group £m	2021 Group £m	**2022 Company £m**	2021 Company £m
Current liabilities: trade and other payables				
Trade payables	**731**	586	**730**	585
Collateral held from banking counterparties	**-**	105	**-**	-
Payments received on account	**45**	26	**41**	24
Other payables	**531**	444	**492**	383
Other interest accruals	**250**	241	**244**	235
Other accruals	**968**	934	**960**	942
Deferred income	**1,139**	1,278	**1,113**	1,274
	3,664	3,614	**3,580**	3,443

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for the year ended 31 March 2022

19. Trade and other payables (continued)

Deferred income includes £831m (31 March 2021: £962m) relating to cumulative timing differences between government grants received and expenditure being incurred which gives rise to the recognition of income under grant agreements. The remainder of the balance relates principally to IFRS 15 items referred to in that standard as 'contract liabilities'.

£23m of the property deferred income balance at the beginning of the year was recognised as revenue in the current year.

The group average credit period taken for trade purchases is 30 days (2021: 26 days). For the company, the average credit period taken for trade purchases in 30 days (2021: 25 days).

Before accepting new suppliers, and upon letting significant contracts, the group 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.

The Other accruals balances contains a degree of estimation uncertainty regarding the amounts to be paid. The majority of the balance relates to COWD which is disclosed as a key source of estimation uncertainty.

	2022 Group £m	2021 Group £m	**2022 Company £m**	2021 Company £m
Non-current liabilities: other payables				
Capital grants deferred income	**392**	323	**376**	303
Other payables	**18**	55	**14**	57
	410	378	**390**	360

Notes to the financial statements

for the year ended 31 March 2022

20. Borrowings

The borrowings balance is split as follows:

	2022 Group £m	2021 Group £m	2022 Company £m	2021 Company £m
Net borrowings by instrument:				
Cash and cash equivalents	**477**	522	**161**	289
Collateral placed with counterparties	**255**	369	**-**	-
Collateral received from counterparties	**-**	(105)	**-**	-
Bank loans and overdraft	**(542)**	(522)	**-**	(70)
Lease liabilities	**(420)**	(386)	**(420)**	(386)
Bonds issued under the Debt Issuance Programme (Less unamortised premium, discount and fees)	**(24,880)**	(23,874)	**-**	-
Department for Transport facility borrowings*	**(30,941)**	(30,683)	**(30,941)**	(30,683)
Intercompany borrowings	**-**	-	**(25,304)**	(24,087)
	(56,051)	(54,679)	**(56,504)**	(54,937)
Movements in net borrowings				
At the beginning of the year	**(54,679)**	(54,601)	**(54,937)**	(54,787)
(Decrease) / increase in cash and cash equivalents	**(45)**	92	**(128)**	54
Proceeds from borrowings	**(7,888)**	(10,841)	**(7,888)**	(10,841)
Repayments of borrowings**	**8,050**	10,841	**7,620**	9,841
Capital accretion	**(1,497)**	(281)	**-**	-
Exchange differences	**-**	20	**-**	-
Movement in collateral received from counterparties	**105**	(165)	**-**	-
Movement in collateral placed with counterparties	**(114)**	15	**-**	-
Movement in lease liabilities (see Note 26)	**(34)**	25	**(34)**	24
Decrease/(increase) in DfT collateral facility**	**10**	150	**10**	150
Fair value and other movements	**41**	66	**-**	-
Net movement in intercompany borrowings	**-**	-	**(1,217)**	535
Movement in bank loans and overdrafts	**-**	-	**70**	87
At the end of the year	**(56,051)**	(54,679)	**(56,504)**	(54,937)

Net borrowings are reconciled to the balance sheet as set out below:

	2022 Group £m	2021 Group £m	2022 Company £m	2021 Company £m
Cash and cash equivalents	**477**	522	**161**	289
Collateral placed with counterparties (included in trade and other receivables)	**255**	369	**-**	-
Collateral received from counterparties (included in trade and other payables)	**-**	(105)	**-**	-
Borrowings included in current liabilities	**(2,801)**	(8,157)	**(2,800)**	(8,231)
Borrowings included in non-current liabilities	**(53,982)**	(47,308)	**(53,865)**	(46,995)
	(56,051)	(54,679)	**(56,504)**	(54,937)

* As at 31 March 2022, a collateral facility of £250m (2021: £260m) was included within this balance.
** Included in repayment of borrowings in cash flow statement.

Notes to the financial statements

for the year ended 31 March 2022

20. Borrowings (continued)

	2022 Group £m	2021 Group £m	**2022 Company £m**	2021 Company £m
1.085% sterling index linked bond due 2052	**154**	143	-	-
0% sterling index linked bond due 2052	**171**	157	-	-
1.003% sterling index linked bond due 2051	**29**	27	-	-
0.53% sterling index linked bond due 2051	**149**	138	-	-
0.517% sterling index linked bond due 2051	**149**	138	-	-
0% sterling index linked bond due 2051	**172**	158	-	-
0.678% sterling index linked bond due 2048	**146**	136	-	-
1.125% sterling index linked bond due 2047	**6,317**	5,887	-	-
0% sterling index linked bond due 2047	**111**	101	-	-
1.1335% sterling index linked bond due 2045	**60**	55	-	-
1.5646% sterling index linked bond due 2044	**325**	313	-	-
1.1565% sterling index linked bond due 2043	**67**	62	-	-
1.1795% sterling index linked bond due 2041	**82**	76	-	-
1.2219% sterling index linked bond due 2040	**319**	307	-	-
1.2025% sterling index linked bond due 2039	**90**	83	-	-
4.6535% sterling bond due 2038	**100**	100	-	-
1.375% sterling index linked bond due 2037	**6,230**	5,789	-	-
4.75% sterling bond due 2035	**1,236**	1,235	-	-
1.6492% sterling index linked bond due 2035	**485**	467	-	-
4.375% sterling bond due 2030	**873**	872	-	-
1.75% sterling index linked bond due 2027	**6,000**	5,599	-	-
4.615% Norwegian krone bond due 2026*	**45**	49	-	-
4.57% Norwegian krone bond due 2026*	**13**	14	-	-
1.9618% sterling index linked bond due 2025	**411**	395	-	-
4.75% sterling bond due 2024	**747**	745	-	-
3% sterling bond due 2023	**399**	399	-	-
2.76% Swiss franc bond due 2021	-	231	-	-
2.315% Japanese yen bond due 2021*	-	66	-	-
2.28% Japanese yen bond due 2021*	-	66	-	-
2.15% Japanese yen bond due 2021*	-	66	-	-
	24,880	23,874	-	-

* Bonds treated as fair value through profit and loss. These bonds are classified as level 2 under IFRS 13.
All other bonds are shown net of unamortised discount and fees.

Notes to the financial statements

for the year ended 31 March 2022

20. Borrowings (continued)

Bank loans are analysed as follows:

	2022 Group £m	2021 Group £m	2022 Company £m	2021 Company £m
Index-linked European Investment Bank due 2036 (£251m) and 2037 (£249m)	**542**	522	-	-
	542	522	-	-

At 31 March 2022 and 2021 the group and company had the following undrawn committed borrowing facilities at nominal value:

	2022 Drawn £m	2022 Undrawn £m	2022 Total £m	2021 Drawn £m	2021 Undrawn £m	2021 Total £m
Department for Transport loan facility	**30,709**	**1,150**	**31,859**	30,439	1,420	31,859
Department for Transport collateral facility	**250**	**50**	**300**	260	140	400
	30,959	**1,200**	**32,159**	30,699	1,560	32,259

Undrawn committed facilities expire as follows:

Group and company	2022 £m	2021 £m
Within one year	-	-
Within two to five years	1,150	1,420
After five years	50	140
	1,200	1,560

On 4 July 2014, the Secretary of State for Transport provided the group with a loan facility of £30,875m expiring on 31 March 2019. Following the asset divestment programme, the loan facility was reduced to £29,909m which had been fully drawn as at 31 March 2019. On 28 March 2019, a new facility was signed which became available for drawing on 1 April 2019 (the '2019 facility'). The 2019 facility has a drawdown limit of £32,329m. Following the CVL disposal, this facility was reduced to £31,859m. In addition, the Secretary of State for Transport has provided unlimited financial indemnity in respect of borrowings under the Debt Issuance Programme which expires in 2052.

Notes to the financial statements

for the year ended 31 March 2022

21. Derivative financial instruments

	Group			
	2022		2021	
Group	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Derivative financial instrument assets				
Cash flow hedges				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	-	-	109	128
Non-hedge accounted derivatives				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	5	56	67	198
Interest rate swaps	7	2,010	211	9,140
Forward foreign exchange contracts	1	30	-	-
	13	2,096	387	9,466
Included in non-current assets	9	511	191	6,716
Included in current assets	4	1,585	196	2,750
	13	2,096	387	9,466
Derivative financial instrument liabilities				
Cash flow hedges				
Interest rate swaps	-	-	(6)	130
Forward starting interest rate swaps	-	-	-	-
Non-hedge accounted derivatives				
Interest rate swaps to hedge debt issued under the Debt Issuance Programme	(261)	11,310	(640)	9,140
Forward foreign exchange contracts	-	28	(2)	4
	(261)	11,338	(648)	9,274
Included in current liabilities	(55)	3,666	(83)	2,614
Included in non-current liabilities	(206)	7,672	(565)	6,660
	(261)	11,338	(648)	9,274

See Note 27: 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.

The majority of the group's remaining derivative are forward-starting interest rate swaps which were initiated prior to Network Rail's reclassification. The 'pay fixed, receive floating' arrangement had – at hedge inception – the effect of fixing Network Rail's exposure to interest rate movements between the date of entering into the swap and the drawdown of expected future debt issuances. The balance in the hedging reserve represents the cumulative loss on these instruments at the point of debt drawdowns, less amounts reclassified into profit and loss in line with the maturity of the hedged item (debt).

Following the passage of the hedged events (debt issuances), which have all now occurred, movements on these instruments have been taken in full to profit and loss since the economic relationship underpinning the hedge no longer exists. Interest rate swaps included within the derivatives population above also include reversing swaps entered into at the point of debt drawdowns to cancel the floating leg effect of the original swap. Movements in fair value for these reversing swaps are taken against profit and loss throughout the life of these instruments.

Notes to the financial statements

for the year ended 31 March 2022

21. Derivative financial instruments (continued)

Company	Fair value 2022 £m	Fair value 2021 £m
Non-hedge accounted derivatives liabilities		
Forward foreign exchange contracts	**(1)**	(1)
Embedded derivative in inter-company borrowings	**(251)**	(260)
	(252)	(261)
Included in current liabilities	**(252)**	(261)
Included in non-current liabilities	**-**	-
Derivative financial instrument liabilities	**(252)**	(261)

See Note 27: Funding and financial risk management for further details on the risk management strategy.

22. Provisions

Group and company	Restructuring £m	Legal £m	Other £m	Total £m
At 1 April 2021	**5**	**23**	**67**	**95**
Additional provision in the year	5	12	23	40
Utilised in the year	-	(8)	(8)	(16)
Release for the year	(10)	(3)	(28)	(41)
At 31 March 2022	**-**	**24**	**54**	**78**

The group and company have 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 group'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 2022

23. Deferred tax

Group	Accelerated Tax depreciation £m	Unrealised gain on investment property £m	Revaluation of railway network £m	Short term timing differences including retirement benefit obligations £m	Derivatives £m	Tax losses £m	Total £m
At 31 March 2020	**2,887**	**-**	**724**	**17**	**(25)**	**-**	**3,603**
Charge/(credit) to income	258	(2)	-	(54)	-	121	323
Charge/(credit) to other comprehensive income	-	-	(344)	(118)	29	-	(433)
Impact of rate change on deferred tax asset (income)	-	-	-	-	-	-	-
Impact of rate change on deferred tax asset (equity)	-	-	-	-	-	-	-
Transfer between reserves	-	-	(6)	6	-	-	-
Utilisation of losses previously derecognised	-	-	-	-	-	(84)	(84)
Utilisation of ACT	-	-	-	-	-	(37)	(37)
Transfer between reserves	-	-	-	-	-	-	-
De-recognition of deferred tax asset (income)	-	2	-	-	-	-	2
De-recognition of deferred tax asset (equity)	-	-	-	-	(29)	-	(29)
At 31 March 2021	**3,145**	**-**	**374**	**(149)**	**(25)**	**-**	**3,345**
Charge/(credit) to income	218	8	-	(94)	34	(25)	141
Charge/(credit) to other comprehensive income	-	-	461	241	23	-	725
Impact of rate change on deferred tax asset (income)	1,012	-	-	(121)	(8)	-	883
Impact of rate change on deferred tax asset (equity)	-	-	118	74	(1)	-	191
Transfer between reserves	-	-	(8)	8	-	-	-
Utilisation of losses previously derecognised	-	-	-	-	-	-	-
Utilisation of ACT	-	-	-	-	-	-	-
Transfer between reserves	-	-	-	-	-	-	-
Derecognition of deferred tax asset (income)	-	(8)	-	-	-	25	17
De-recognition of deferred tax asset (equity)	-	-	-	-	(22)	-	(22)
At 31 March 2022	**4,375**	**-**	**945**	**(41)**	**1**	**-**	**5,280**

Notes to the financial statements

for the year ended 31 March 2022

23. Deferred tax (continued)

Company	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
At 31 March 2020	**2,885**	**-**	**725**	**16**	**-**	**-**	**3,626**
(Credit)/charge to income	258	(2)	-	(54)	-	121	323
(Credit)/charge to other comprehensive income	-	-	(344)	(118)	-	-	(462)
Impact of rate change on deferred tax asset (income)	-	-	-	-	-	-	-
Impact of rate change on deferred tax asset (equity)	-	-	-	-	-	-	-
Transfer between reserves	-	-	(6)	6	-	-	-
Transfer between reserves	-	-	-	-	-	-	-
Utilisation of losses brought forward	-	-	-	-	-	(84)	(84)
Utilisation of ACT	-	-	-	-	-	(37)	(37)
De-recognition of deferred tax asset (income)	-	2	-	-	-	-	2
At 31 March 2021	**3,143**	**-**	**375**	**(150)**	**-**	**-**	**3,368**
(Credit)/charge to income	208	8	-	(94)	-	(25)	97
(Credit)/charge to other comprehensive income	-	-	461	242	6	-	709
Impact of rate change on deferred tax asset (income)	1,010	-	-	(121)	-	-	889
Impact of rate change on deferred tax asset (equity)	-	-	118	74	(1)	-	191
Transfer between reserves	-	-	(8)	8	-	-	-
Derecognition of impact on rate change Equity	-	-	-	-	1	-	1
Utilisation of losses brought forward	-	-	-	-	-	-	-
Utilisation of ACT	-	-	-	-	-	-	-
De-recognition of deferred tax asset (income)	-	(8)	-	-	-	25	17
Derecognition of deferred tax asset (equity)	-	-	-	-	(6)	-	(6)
At 31 March 2022	**4,361**	**-**	**946**	**(41)**	**-**	**-**	**5,266**

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

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for the year ended 31 March 2022

23. Deferred tax (continued)

	2022 Group £m	2021 Group £m	2022 Company £m	2021 Company £m
Deferred tax liabilities	**5,321**	3,520	**5,307**	3,517
Deferred tax assets	**(41)**	(175)	**(41)**	(149)
	5,280	3,345	**5,266**	3,368

Under IAS 12 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. Note 11 includes further discussion around the recognition of deferred tax assets. The deferred tax asset on tax losses of £2,305m (2021: £2,736m) has therefore not been recognised. The reduction in available losses is due to losses being used when finalising the 2021 financial statements. The deferred tax asset for surplus ACT was fully utilised in the previous financial year.

Additionally, whilst taxable income does not exceed allowable deductions in the year, Network Rail claims only the capital allowances sufficient to make the necessary claims for group relief and available tax credits.

24. Share capital

Company	2022 £m	2021 £m
Authorised:		
50,200,000 ordinary shares of 0.1p each	-	-
500,000,000 redeemable shares of £1 each	**500**	500
	500	500
Issued and fully paid:		
50,084,937 ordinary shares of 0.1p each	-	-
160,000,000 redeemable shares of £1 each	**160**	160
	160	160

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.

Notes to the financial statements

for the year ended 31 March 2022

25. Notes to the statement of cash flows

	2022 Group £m	2021 Group £m	**2022 Company £m**	2021 Company £m
Profit/(loss) before tax	**317**	1,605	**211**	1,682
Adjustments for:				
Property revaluation movements and profits on disposal	**(51)**	5	**(57)**	1
Fair value gains on derivatives and debt	**(157)**	(176)	**6**	(133)
Net interest expense	**2;843**	1,740	**2,768**	1,596
Depreciation of the railway network	**2,198**	2,093	**2,198**	2,093
Amortisation of capital grants	**(240)**	(129)	**(240)**	(129)
Amortisation of intangible assets	**1**	1	**-**	-
Movement in retirement benefit obligations	**266**	164	**266**	164
(Decrease)/Increase in provisions	**(17)**	15	**(17)**	15
Operating cash flow before movements in working capital	**5,160**	5,318	**5,135**	5,289
Increase in inventories	**(13)**	(24)	**(13)**	(24)
(Increase)/Decrease in receivables	**(75)**	60	**(71)**	44
Increase in payables	**206**	122	**194**	(8)
Cash generated from operations	**5,278**	5,476	**5,245**	5,301

Cash and cash equivalents

Cash and cash equivalents (which are represented as a single class of assets on the face of the balance sheet) comprise cash at bank and commercial paper, all of which are on call with the exception of short-term deposits. There were £558m (excluding offsetting clearing accounts) of short-term deposits with the government banking scheme ("GBS") held as at 31 March 2022 (2021: £576m).

26. Leases

The group and company as lessee

Property lease payments largely represent rentals payable by the group for certain of its office properties. In addition, rentals are paid for land adjacent to the railway required for maintenance and renewal activities. Non-property leases include the group's vehicles, on track machines and wagons that are leased.

Notes to the financial statements

for the year ended 31 March 2022

26. Leases (continued)

The movement in the period for the lease liability is reconciled as follows:

Group and company	Property leases £m	Non property leases £m	Total £m
Balance recognised on transition at 1 April 2020	230	181	411
New leases entered into in the period	23	57	80
Leases renewed in the period	-	-	-
Change in assumptions	(5)	(4)	(9)
Interest charged in the period	5	6	11
Payments in the period	(48)	(59)	(107)
Balance at 1 April 2021	205	181	386
New leases entered into in the period	28	89	117
Leases renewed in the period	-	-	-
Change in assumptions	29	10	39
Interest charged in the period	5	6	11
Payments in the period	(48)	(85)	(133)
Lease liabilities at 31 March 2022	**219**	**201**	**420**

The lease liabilities are split between the current and non-current liabilities as shown below:	**2022 £m**	2021 £m
Current lease liabilities	**130**	107
Non-current lease liabilities	**290**	279
Total lease liabilities	**420**	386

The movement in the period for the ROU assets is reconciled as follows:

Group and company	Property leases £m	Non property leases £m	Total £m
Balance recognised on transition at 1 April 2020	246	182	428
New leases entered into in the period	23	57	80
Leases renewed in the period	-	-	-
Change in assumptions	(19)	(6)	(25)
Depreciation charged in the period	(45)	(56)	(101)
Balance at 1 April 2021	205	177	382
New leases entered into in the period	28	89	117
Leases renewed in the period	-	-	-
Change in assumptions	28	2	30
Depreciation charged in the period	(45)	(60)	(105)
Right of use asset at 31 March 2022	**216**	**208**	**424**

Expenses relating to short-term lease (included in net operating costs) were £0.2m (2021: £2m.) The total cash outflow for leases during the year was £133m (2021: £109m.)

Notes to the financial statements

for the year ended 31 March 2022

26. Leases (continued)

As at 31 March 2022, the total ROU assets for the company were £424m (2021: £382m) and depreciation of ROU assets of £105m (2021: £101m).

The following table details the group's remaining contractual maturity for its financial liabilities. See Note 27 for details of how liquidity risk is managed across the group.

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Lease liabilities	129	97	132	119	477

Group and company as a lessor
Minimum lease payments receivable on leases of investment properties are as follows:

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Minimum lease payments receivable	429	346	678	1,681	3,134

Notes to the financial statements

for the year ended 31 March 2022

27. Funding and financial risk management

Introduction

The group's funding requirement is met by the Department for Transport via a loan facility and grants. Previously, the group was almost entirely debt financed. Of the total £56.4bn borrowings, £25.4bn debt has been issued through the special purpose financing company Network Rail Infrastructure Finance PLC, which is not a member of the Network Rail Limited group but is treated as a subsidiary for accounting purposes. This debt has been issued by Network Rail Infrastructure Finance PLC under the Debt Issuance Programme rated AA by Standard and Poor's, Aa3 (outlook stable) by Moody's and AA- (outlook stable) by Fitch at the reporting date. In October 2022 Moody's rating was adjusted to Aa3 (outlook negative) and Fitch's rating was adjusted to AA- (outlook negative). As of August 2022 a credit rating is no longer being obtained from Standard and Poor on the programme itself, although it continues to maintain ratings on individual outstanding debt issuances. The Debt Issuance Programme is supported by a financial indemnity from the Secretary of State for Transport which expires in 2052. The remaining £30.9bn was issued to Network Rail Infrastructure Limited through the Department of Transport (refer to Reclassification of Network Rail below).

Debt has been issued in a number of currencies and a range of maturities which gives rise to interest rate, foreign currency and inflation risk. Financial risk management aims to mitigate these risks.

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.

Summary table of financial assets and liabilities

The following table presents the carrying amounts and the fair values of the group's financial assets and liabilities at 31 March 2022 and 2021.

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 (see Accounting Policies in Note 2):

- Bank loans – based on market data at the balance sheet date and the net present value of discounted cash flows
- Bonds issued under the Debt Issuance Programme – based on market data at the balance sheet date. There are a small number of privately held bonds that are valued by management. Management review comparator bonds and determine an appropriate yield rate based on similar bonds that have available prices.

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.

Notes to the financial statements

for the year ended 31 March 2022

27. Funding and financial risk management (continued)

Group	2022 Carrying value £m	Fair value £m	2021 Carrying value £m	Fair value £m
Financial assets				
Cash and cash equivalents	**477**	**477**	522	522
Other non-derivative financial assets				
Trade and other receivables (less prepayments and accrued income and other taxation and social security)	**981**	**981**	834	834
Collateral receivable	**255**	**255**	369	369
Derivatives				
Derivatives designated as cash flow hedging instruments	**-**	**-**	109	109
Derivatives designated as fair value hedging instruments	**-**	**-**	-	-
Other derivatives as fair value through profit and loss	**13**	**13**	278	278
Total financial assets	**1,726**	**1,726**	2,112	2,112
Financial liabilities				
Financial liabilities held at amortised cost				
Bank loans	**(542)**	**(912)**	(522)	(864)
Bonds issued under the Debt Issuance Programme	**(24,823)**	**(39,473)**	(23,613)	(38,917)
Borrowings issued by Department for Transport	**(30,941)**	**(30,342)**	(30,683)	(30,971)
Collateral payable	**-**	**-**	(105)	(105)
Trade and other payables at amortised cost (less deferred income)	**(2,543)**	**(2,543)**	(2,286)	(2,286)
Financial liabilities designated as fair value through profit and loss				
Bonds issued under the Debt Issuance Programme	**(57)**	**(57)**	(261)	(261)
Derivatives				
Derivatives designated as cash flow hedging instruments	**-**	**-**	(6)	(6)
Other derivatives as fair value through profit and loss	**(261)**	**(261)**	(642)	(642)
Total financial liabilities	**(59,167)**	**(73,588)**	(58,118)	(74,052)

The bonds issued under the Debt Issuance programme are a combination of level 1 (£34,650m) and level 2 (£4,880m). Financial liabilities designated at fair value, the bank loans, the derivatives and the loan from the Department for Transport are all level 2. For all of the remaining balances, the carrying value approximates fair value and these are level 3.

As shown in the above table, the bonds issued under the Debt Issuance Programme have fair values significantly in excess of their carrying values. These differences are not reflected in the Balance Sheet since the majority of these instruments (See Note 20) were not designated at FVPL on initial recognition and hence are accounted for at amortised cost under IFRS 9. The size of the difference is driven by the overall decrease in market debt yield rates since the inception of these instruments; debt terms in a higher yield environment resulting in a settlement at par would now attract a premium, assuming no other changes to the instrument or wider environment. The 2021 Loans from subsidiaries has been restated due to refined analysis.

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for the year ended 31 March 2022

27. Funding and financial risk management (continued)

Company	2022 Carrying value £m	Fair value £m	2021 Carrying Value £m	Fair Value £m (Restated)
Financial Assets				
Cash and cash equivalents	**161**	**161**	289	289
Other non-derivative financial assets				
Trade and other receivables *(less prepayments and accrued income and other taxation and social security)*	**948**	**948**	798	798
Total financial assets	**1,109**	**1,109**	1,087	1,087
Financial Liabilities				
Financial liabilities held at amortised cost				
Bank loans and overdrafts	**-**	**-**	(70)	(70)
Loans from subsidiaries	**(25,304)**	**(40,560)**	(24,087)	(40,195)
Department for Transport borrowings	**(30,941)**	**(30,342)**	(30,683)	(30,971)
Total borrowings	**(56,245)**	**(70,902)**	(54,840)	(71,236)
Trade and other payables	**(2,481)**	**(2,481)**	(2,225)	(2,225)
Derivatives				
Embedded derivatives in inter-company borrowing	**(251)**	**(251)**	(260)	(260)
Other derivatives	**(1)**	**(1)**	(1)	(1)
Total derivatives	**(252)**	**(252)**	(261)	(261)
Total financial liabilities	**(58,978)**	**(73,635)**	(57,326)	(73,772)

Derivatives

The group (including the group's special purpose financing company, Network Rail Infrastructure Finance PLC) uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The group 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 group 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 group 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

Network Rail 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 group spreads its exposure over a number of counterparties and has strict policies on how much exposure can be assigned to each of the counterparties. Surplus liquidity is invested in the Government Banking Scheme which has low credit risk.

Notes to the financial statements

for the year ended 31 March 2022

27. Funding and financial risk management (continued)

For debt designated as fair value through profit and loss (FVTPL) there has been no change in carrying value as a result of changes in the group's credit risk. The gain in the income statement arising from the remeasurement of FVTPL debt items of £nil (2021: profit of £30m) is all attributable to changes in market risk.

The credit risk with regard to all classes of derivative financial instruments entered into before 1 January 2013 is limited because Network Rail has arrangements in place which limit each bank to a threshold (based on credit ratings), which if breached requires the bank to post collateral in cash or eligible securities. The members of the banking group are required to post collateral on positive mark to market swaps above the threshold. In December 2012 the group entered into new collateral agreements in respect of derivative trades entered into after 1 January 2013. Under the terms of the new agreements Network Rail posts collateral on adverse net derivative positions with its counterparties. The new agreements do not contain a provision for thresholds; as such Network Rail or its counterparties are required to post collateral for the full fair value of net out of the money positions. At 31 March 2022 the fair value of collateral held was £nil (2021: £105m). The group is the beneficial owner of this collateral. The group is free to invest or otherwise utilise the collateral at its discretion, subject to acting within the authority sanctioned by the treasury committee. The balance of collateral posted by the group at 31 March 2022 was £255m (2021: £369m).

The group 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 18 (Trade and other receivables) and 19 (Trade and other payables).

The group considers its maximum exposure to credit risk to be the sum of its financial assets, as set out on Note 18.

Foreign exchange risk

Network Rail 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 group considers a 10 percentage point increase in the value of any currency against sterling to be a reasonably possible change and this would not have a material impact on the group's net profit before tax or equity.

Interest rate and inflation risk

The group is 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.

Debt with a carrying value of £13,320m (2021: £18,410m) is arranged at or swapped into fixed interest rates and exposes the group to fair value interest rate risk. Other borrowings were arranged at or swapped into floating rates, thus exposing the group to cash flow interest rate risk. They have arranged or swapped other borrowings into floating rates (£56m), thus exposing the group to cash flow interest rate risk.

The group has certain debt issuances which are index-linked and so are exposed to movements in inflation rates. The group does not enter into any derivative arrangements to hedge its exposure to inflation in relation to its index-linked debt, but rather to mitigate the effects of inflation on the group's retail price index-linked revenue streams.

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.

Notes to the financial statements

for the year ended 31 March 2022

27. Funding and financial risk management (continued)

Group and company	**31 March 2022** Impact on the income statement £m	Impact on equity £m	31 March 2021 Impact on the income statement £m	Impact on equity £m
1% increase in the interest rate	**196**	-	213	3
1% increase in the GBP RPI on index linked bonds	**(195)**	-	(186)	-

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.

Intercompany loans and 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.

After the embedded derivative has been separated, the intercompany loan is measured at amortised cost. There is a corresponding asset in Network Rail Infrastructure Finance Plc. However, that asset is designated and measured at Fair Value Through Profit and Loss (FVTPL) using mid-market price.

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. The Treasury funding 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 group 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. Included in Note 20 is a description of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

The following table details the group and 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 group 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.

Notes to the financial statements

for the year ended 31 March 2022

27. Funding and financial risk management (continued)

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
31 March 2022					
Non-derivative financial liabilities					
Bank loans and overdrafts	**(7)**	**(7)**	**(20)**	**(641)**	**(675)**
Bonds issued under the Debt Issuance Programme					
– Sterling denominated bonds	**(150)**	**(1,300)**	**(307)**	**(2,966)**	**(4,723)**
– Sterling denominated index-linked bonds	**(295)**	**(295)**	**(1,295)**	**(23,888)**	**(25,773)**
– Foreign currency denominated bonds	**(2)**	**(2)**	**(61)**	**-**	**(65)**
Loan from the Department for Transport	**(3,270)**	**(3,285)**	**(25,668)**	**(205)**	**(32,428)**
Trade and other payables	**(1,512)**	**(18)**	**-**	**-**	**(1,530)**
Derivative financial liabilities					
Net settled derivative contracts	**(120)**	**(67)**	**(69)**	**(4)**	**(260)**
Gross settled derivative contracts – receipts	**29**	**29**	**88**	**-**	**146**
Gross settled derivative contracts – payments	**-**	**-**	**-**	**-**	**-**
	(5,327)	**(4,945)**	**(27,332)**	**(27,704)**	**(65,308)**

Group	Within 1 year £m (Restated)	1-2 years £m (Restated)	2-5 years £m (Restated)	5+ years £m (Restated)	Total £m (Restated)
31 March 2021					
Non-derivative financial liabilities					
Bank loans and overdrafts	(6)	(6)	(19)	(595)	(626)
Bonds issued under the Debt Issuance Programme					
– Sterling denominated bonds	(150)	(150)	(1,505)	(3,068)	(4,873)
– Sterling denominated index-linked bonds	(268)	(268)	(1,204)	(22,189)	(23,929)
– Foreign currency denominated bonds	(441)	(3)	(8)	(57)	(509)
Loan from the Department for Transport	(7,834)	(3,123)	(20,642)	(508)	(32,107)
Trade and other payables	(1,378)	(54)	-	-	(1,432)
Derivative financial liabilities					
Net settled derivative contracts	(177)	(120)	(126)	(14)	(437)
Gross settled derivative contracts – receipts	712	29	88	29	858
Gross settled derivative contracts – payments	(1)	-	-	(1)	(2)
	(9,543)	**(3,695)**	**(23,416)**	**(26,403)**	**(63,057)**

Notes to the financial statements

for the year ended 31 March 2022

27. Funding and financial risk management (continued)

Company 31 March 2022	**Within 1 year £m**	**1-2 years £m**	**2-5 years £m**	**5+ years £m**	**Total £m**
Non-derivative financial liabilities					
Inter-company loan	**(454)**	**(1,604)**	**(1,683)**	**(27,495)**	**(31,236)**
Trade and other payables	**(1,467)**	**(14)**	**-**	**-**	**(1,481)**
Department for Transport borrowings	**(3,270)**	**(3,285)**	**(25,668)**	**(205)**	**(32,428)**
Derivative financial liabilities					
Embedded derivative	**(251)**	**-**	**-**	**-**	**(251)**
Other derivatives	**(1)**	**-**	**-**	**-**	**(1)**
	(5,443)	**(4,903)**	**(27,351)**	**(27,700)**	**(65,397)**

Company 31 March 2021	**Within 1 year £m (Restated)**	**1-2 years £m (Restated)**	**2-5 years £m (Restated)**	**5+ years £m (Restated)**	**Total £m (Restated)**
Non-derivative financial liabilities					
Inter-company loan	(865)	(427)	(2,736)	(25,909)	(29,937)
Trade and other payables	(1,202)	(57)	-	-	(1,259)
Department for Transport borrowings	(7,834)	(3,123)	(20,642)	(508)	(32,107)
Derivative financial liabilities					
Embedded derivative	(260)	-	-	-	(260)
Other derivatives	(1)	-	-	-	(1)
	(10,162)	**(3,607)**	**(23,378)**	**(26,417)**	**(63,564)**

Offsetting financial assets and liabilities

Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

				Related amounts not set off in the balance sheet		
Group	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities set off in the balance sheet £m**	**Net amount of financial assets presented in the balance sheet £m**	**Financial instruments £m**	**Cash collateral received £m**	**Net amount £m**
31 March 2022						
Derivative financial assets	13	-	13	(13)	95	95

Notes to the financial statements

for the year ended 31 March 2022

27. Funding and financial risk management (continued)

31 March 2021						
Derivative financial assets	387	-	387	(283)	235	339

Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

				Related amounts not set off in the balance sheet		
	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	Financial instruments	Cash collateral paid	Net amount
Group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
31 March 2022						
Derivative financial liabilities	(261)	-	(261)	12	160	(89)
31 March 2021						
Derivative financial liabilities	(648)	-	(648)	283	28	(337)

				Related amounts not set off in the balance sheet		
	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	Financial instruments	Cash collateral paid	Net amount
Company	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial liabilities						
31 March 2022	**(252)**	-	**(252)**	-	-	**(252)**
Derivative financial liabilities						
31 March 2021						
Derivative financial liabilities	(261)	-	(261)	-	-	(261)

Notes to the financial statements

for the year ended 31 March 2022

27. Funding and financial risk management (continued)

Cash flow hedges

Contractual payments on derivatives designated as cash flow hedges impact the income statement and will all have matured by 2027.

Borrowings

Details of the group's undrawn committed facilities and types of debt instrument used can be found in Note 20.

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).

		2022		
Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Derivative financial assets	-	13	-	13
Assets	**-**	**13**	**-**	**13**
Derivative financial liabilities	-	(261)	-	(261)
Financial liabilities designated at fair value through profit and loss	-	(57)	-	(57)
Liabilities	**-**	**(318)**	**-**	**(318)**
Total	**-**	**(305)**	**-**	**(305)**

		2021		
Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Derivative financial assets	-	387	-	387
Assets	**-**	**387**	**-**	**387**
Derivative financial liabilities	-	(648)	-	(648)
Financial liabilities designated at fair value through profit and loss	-	(261)	-	(261)
Liabilities	**-**	**(909)**	**-**	**(909)**
Total	**-**	**(522)**	**-**	**(522)**

Notes to the financial statements

for the year ended 31 March 2022

27. Funding and financial risk management (continued)

Company **31 March 2022**	**Level 1** **£m**	**Level 2** **£m**	**Level 3** **£m**	**Total** **£m**
Derivative financial liabilities	-	**(252)**	-	**(252)**
Financial liabilities	-	**(252)**	-	**(252)**
Total	-	**(252)**	-	**(252)**
31 March 2021				
Derivative financial liabilities	-	**(261)**	-	**(261)**
Financial liabilities	-	**(261)**	-	**(261)**
Total	-	**(261)**	-	**(261)**

The fair value of level 2 derivatives is estimated by discounting the future contractual cash flows using appropriate yield curves based on quoted market rates as at the current financial year end.

A review of the categorisation of the assets and liabilities into the three levels is made at each reporting date. There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements in the current or prior years.

28. 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 2022, the NRDCPS had 12,960 members (2021: 14,082) and the average employer contribution rate in the year was 4 per cent (2021: 4 per cent).

The estimated amounts of contributions expected to be paid by the company to the schemes during the year ended 31 March 2023 are £140m.

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

Notes to the financial statements

for the year ended 31 March 2022

28. Retirement benefit schemes (continued)

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 2022 and 31 March 2021.

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). The last full actuarial valuations of both the RPS and CARE schemes were undertaken by the Scheme Actuaries, at WTW and XPS respectively. These triennial valuations showed a technical combined funding surplus of £1,065m. 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.

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.

	2022	2021
	%	%
Key assumptions used:		
Discount rate	**2.7**	2.1
Expected rate of price inflation and CARE benefit increases (RPI measure)	**3.6**	3.2
Future earnings increase *		
- after changes to benefits from 1 April 2016	**3.6**	3.2
Pension increases (CPI measure)	**3.2**	2.8

*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 2022

28. Retirement benefit schemes (continued)

	2022		2021	
	Males	**Females**	Males	Females
Average life expectancy mortality tables used to determine defined benefit obligations:				
- Member aged 65	**21**	**23**	21.1	23
- Member aged 45	**22.7**	**24.9**	22.7	24.9

For Network Rail Section of the RPS the discounted mean term of the defined benefit obligation is 21 years, for the CARE scheme it is 37 years.

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

	2022	2021
	£m	£m
Current service cost – defined contribution (see note 6)	**24**	24
Current service cost – defined benefit (see note 6)	**379**	266
Interest cost	**60**	44
	463	334

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:

	2022	2021
	£m	£m
Gain on defined benefit obligation due to experience	**(224)**	(48)
(Gain)/Loss on defined benefit obligation due to assumption changes	**(438)**	1,566
Return on plan assets (greater) / less than discounts rate	**(304)**	(897)
Actuarial (gain)/loss recognised in the statement of comprehensive income	**(966)**	621

The cumulative amount of actuarial gains recognised in other comprehensive income was £432m (2021: £1,398m). In the year the discount rate increased by 60 bps and the RPI assumption increased by 40 bps. These factors combined have had a significant impact on the defined benefit obligation leading to the £438m gain noted above arising from assumption changes. The other movements increase that gain to £966m which is recorded in the statement of comprehensive income.

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28. 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:

	2022	2021
	£m	£m
The defined benefit obligation is made up as follows:		
Active members	**(7,664)**	(7,701)
Deferred pensioner members	**(1,716)**	(1,752)
Retired members	**(3,560)**	(3,917)
Present value of defined benefit obligation	**(12,940)**	(13,370)
Fair value of scheme assets	**9,175**	8,537
Deficit in the scheme	**(3,765)**	(4,833)
Company's share (60%) of the scheme deficit recognised in the balance sheet	**(2,259)**	(2,899)

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

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

	Assets*	**Liabilities****	**Deficit**
	£m	**£m**	**£m**
At 1 April 2020	**6,951**	**(10,401)**	**(3,450)**
Current service cost including members' share		(465)	(465)
Interest on pension deficit	152	(226)	(74)
Section amendment (Past Service Cost)	-	-	-
Administration expenses	(15)	-	(15)
Return on plan assets greater than the discount rate	1,495	-	1,495
Actuarial gain arising from experience adjustments	-	80	80
Actuarial loss arising from demographic assumptions	-	32	32
Loss on DBO – financial assumption	-	(2,642)	(2,642)
Regular contributions by employer	126	-	126
Contributions by employees	80	-	80
Benefits paid	(252)	252	-
At 1 April 2021	**8,537**	**(13,370)**	**(4,833)**
Current service cost including members' share	-	(650)	(650)
Interest on pension deficit	178	(278)	(100)
Section amendment (Past Service Cost)	-	-	-
Administration expenses	(21)	-	(21)
Return on plan assets greater than the discount rate	508	-	508
Actuarial gain arising from experience adjustments	-	377	377
Actuarial loss arising from demographic assumptions	-	70	70
Gain on DBO – financial assumption	-	662	662
Regular contributions by employer	135	-	135
Contributions by employees	87	-	87
Benefits paid	(249)	249	-
At 31 March 2022	**9,175**	**(12,940)**	**(3,765)**

*Including CARE scheme assets at 31 March 2022 of £393m (2021: £339m)
**Including CARE scheme liabilities at 31 March 2022 of £959m (2021: £909m)
The actual return on scheme assets was £686m (2021: £1,647m).

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for the year ended 31 March 2022

28. Retirement benefit schemes (continued)

Scheme assets

The asset values disclosed below reflect Network Rail's exposure to underlying asset classes through holdings of units of the pooled funds in which the underlying assets are held. Underlying assets are managed by the pension administrator, RPMI and the control over economic benefits for Network Rail established through the unitisation of those funds. The table below has been used to illustrate the underlying assets proportional to Network Rail unit holdings in various pooled funds, and their position in the fair value hierarchy of the underlying assets.

Level 1 and 2 assets include diversified Exchange Traded Funds valued at open trading prices; the Level 3 include property, private equity and non-exchange-traded Pooled Investment Vehicles equity. 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) and therefore are inherently more subjective than Level 1 and Level 2 assets.

		2022			2021
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
RPS scheme					
Pooled investment vehicles	-	-	-	-	39
Private equity and non-exchange-traded pooled investment vehicles	-	387	2,056	2,443	2,406
Cash and current assets	704	-	-	704	969
Equities	4,371	-	106	4,477	3,750
Fixed interest securities	236	24	12	272	252
Derivatives - Futures	-	-	-	-	7
Derivatives - FX contracts	-	-	-	-	-
Index linked securities	245	-	-	245	223
UK Property	-	-	641	641	552
Total assets RPS scheme	5,556	411	2,815	8,782	8,198
CARE scheme					
Growth assets				259	248
Government bonds				31	35
Non-Government bonds				39	31
Property				17	8
Other assets				47	17
Total assets CARE scheme				393	339
Total scheme assets				9,175	8,537

As a result of the economic uncertainty following measures undertaken as a result of the global pandemic, the Private equity and non-exchange traded pooled investment vehicles have required additional activity to assess their value at 31 March 2022. If the valuation was 5% higher or lower this would decrease/ increase the retirement benefit obligations by £141m.

In 2020-21 the scheme assets included Level 3 investments of £2,406m private equity and non-exchange traded pooled investment vehicles, £65m in equities, £14m fixed interest and £552m in property. The total value of Level 3 investments accounted for 37% of the total scheme assets held.

The group 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:

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for the year ended 31 March 2022

28. Retirement benefit schemes (continued)

Asset volatility
There is a risk that a fall in asset values is not matched by corresponding reduction in the value places 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. The CPI(H) assumption is derived from the RPI assumption. On 4 September 2019, the Government and UK Statistics Authority (UKSA) published correspondence relating to the future of RPI. A consultation on the proposed changes ran from March to August 2020 and a formal response to the consultation was published on 25 November 2020. Given that the UKSA have noted their intention to align RPI with CPIH from February 2030, the post-2030 market implied RPI assumption should theoretically reflect market expectations for CPI(H). CPIH has historically been closely aligned with CPI, so it has been assumed there is a nil gap between RPI and CPI(H) from February 2030. This calculation assumes the market has not included any compensation or adjustment for the change from RPI to CPI(H) from 2030. The starting point for the RPI assumption is the yield rate curve reflecting the scheme's average duration of 22 years. The rate is then adjusted downwards to reflect the fact the fact that buyers of these instruments are prepared to pay a premium for inflation protection and as such the yield is not a true reflection of market expectations of inflation. This adjustment is consistent in 2022 and 2021. The difference between RPI and CPI(H) is 40bps (2021:40bps).

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. Management's view is that it is currently too early to establish the long-term impact on healthcare and mortality of the global pandemic. The average life expectancy therefore does not include any adjustment in relation to the global pandemic.

Discount rate
The discount rate needs to be based upon yields on high quality corporate bonds at the balance sheet date. A range of bonds are included when calculating this rate. Further, extrapolation of bond yields is required where there is a lack of bonds at long duration.

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.

Expected future benefit payments from the Network Rail Section, based on data from the 2019 formal valuation and the 31 March 2022 IAS19 assumptions are as follows:

	£m
Benefits expected to be paid within 12 months	**237**
Benefits expected to be paid between 2 to 3 years	**483**
Benefits expected to be paid between 4 to 6 years	**851**
Benefits expected to be paid between 7 to 10 years	**1,396**
Benefits expected to be paid between 11 to 15 years	**2,138**
Benefits expected to be paid in over 15 years	**16,085**

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for the year ended 31 March 2022

28. Retirement benefit schemes (continued)

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

	2022 £m	2021 £m
Discount rate		
Change in defined benefit obligation at year end from a 25 basis point increase	(683)	(721)
Change in defined benefit obligation at year end from a 25 basis point decrease	737	780
Mortality		
Change in defined benefit obligation from a one year increase in longevity	504	534
Change in defined benefit obligation from a one year decrease in longevity	(501)	(534)
Earnings increases		
Change in defined benefit obligation at year end from a 25 basis point increase	204	217
Change in defined benefit obligation at year end from a 25 basis point decrease	(197)	(209)
Price inflation (CPI measure) *		
Change in defined benefit obligation at year end from a 50 (2021:50) basis point increase	981	1,082
Change in defined benefit obligation at year end from a 50 (2021:50) basis point decrease	(908)	(968)

* Including consistent increases to Retail Price Index, salary growth and Retail Price Index/ Consumer Price Index related pensions assumptions.

29. Related parties

	2022 £m	2021 £m
Loans to subsidiaries of the company		
Network Rail Development Limited	**38**	41
Network Rail Consulting Limited	**7**	7
Network Rail (VY1) Limited	**6**	6
Network Rail (VY2) Limited	**13**	13
Total	**64**	67

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

	2022 £m	2021 £m
Intercompany loans	(25,304)	(24,087)

Notes to the financial statements

for the year ended 31 March 2022

29. Related parties (continued)

The Department for Transport (DfT) and Transport Scotland (TS) is considered related parties of NRIL. NRIL received grant income of £5,988m from the DfT in the year ended 31 March 2022 (2021: £6,162m). NRIL received grant income of £525m from TS in the year ended 31 March 2022 (2021: £480m). On 31 March 2022 the company held £30,941m of loans issued by DfT (2021: £30,683m).

The British Transport Police (BTP), with whom Network Rail has a Police Service Agreement is also a related party. Network Rail incurred £97m (2021: £98m) of costs relating to services provided by the BTP in the year ending 31 March 2022 and received £1m (2021: £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 £165m (2021: £181m) of capital work in progress relating to works on HS2 and had also received £199m (2021: £193m) of capital grants that was recorded against property, plant and equipment.

East West Rail (EWR) is also a related party of NRIL. During the year ended 31 March 2022, NRIL received income of £0.3m (2021: £0.2m) from EWR for the provision of feasibility studies and development activities services.

On 1 April 2021 Mr Ismail Amla was appointed a Non-Executive Director to the NRL Board. At the time of appointment Mr Ismail Amla served as the Chief Growth Officer and a Director at Capita. Prior to and since his appointment, NRL engaged Capita for the provision of various services. All services are provided on an arm's length basis. On 30 July 2021 Mr Amla resigned at Capita, therefore at that date, the entity ceases to be a related party of NRL. Related party transactions between NRL and Capita during the period 1April 2021 to 31 July 2021 amounted to £9m.

Network Rail is one of DfT OLR Holdings Limited's main industry stakeholders, with common ownership through the latter being wholly owned by the Secretary of State for Transport. Transactions between Network Rail and DfT OLR Holdings Limited are at arm's length. During the financial year ended 31 March 2022 £507m (2021: £382m) for services rendered was received from DfT OLR Holdings Limited. Capital project funding paid; net of capital costs amounted to £5m (2021: £8m). At year-end balances with DfT OLR Holdings Limited included payables of £11m (2021: £3m) and receivables of £13m (2021: £1m).

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 group is a member and for which group financial statements are drawn up is Network Rail Limited. Copies of the ultimate parent company's financial statements can be obtained by contacting the company secretary at 1 Eversholt Street, London, NW1 2DN.

30. Post balance sheet events

Carrying values for key assets and liabilities including pension assets, pension liabilities and the PPE asset – as well as fair values for the loan balances with NRIF and the Department for Transport – fluctuate over time in response to market and macroeconomic conditions, including changes in interest rates and inflation expectations which have experienced considerable volatility following the year end. The relevant notes provide sensitivity analysis where this can be reasonably performed in relation to alternative possible valuation inputs; this is not possible to provide on a reliable basis in all cases, e.g. where market sentiment plays a key factor in the variation of carrying values over time.

Apart from the events disclosed above, there have not been any significant post balance sheet events, whether adjusting or non-adjusting.