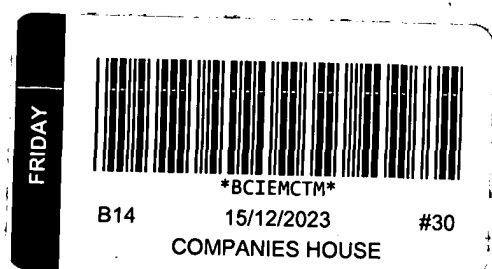


# **Network Rail Infrastructure Limited**

## **Financial statements**

Year ended 31 March 2023

Company registration number 02904587



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Network Rail Infrastructure Limited

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## Officers and professional advisers

### Directors

Andrew Haines  
Robert William Brighthouse  
Peter, Lord Hendy of Richmond Hill  
Drusilla Maizey  
David Michael Noyes  
Mike Colin Putnam  
Jeremy William Westlake  
Fiona Ross  
James Mark Bayley  
Michael James Harrison  
Ismail Amla  
Dr Stephen Charles Duckworth

### Company secretary

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

### Registered office

Waterloo General Office  
London  
SE1 8SW

### 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 2023.

### Who we are and what we do

Our purpose is to get people and goods to where they need to be, and in turn to support the UK's economic prosperity. Our role is to run a safe, reliable and efficient railway, serving our customers and communities. We oversee the running of the railway as an entire system and work closely with train operators to deliver train services as safely, reliably and punctually as possible. We lead the industry's planning for the future of the railway, and we're committed to a sustainability agenda.

### 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 we're organised into five geographical regions, each with its own managing director who is a member of the Executive Leadership Team.

Those regions are sub-divided into a total of 15 routes. As a result of our devolution programme, 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. This enables us to deliver any changes more effectively.

Our regions are also supported by our national functions, who make sure they have everything they need to succeed. System Operator takes a whole-system view of the railway and provides industry leadership in the development of long-term network strategies and advice to funders. Its work integrates the railway service we hope to deliver and the production of the railway timetable. Route Services supports our routes, regions and functions by providing network operations, freight, telecoms and technical expertise, and a number of different customer-focussed services to regional customers and other parts of our business. Route Services includes, among other teams: commercial and procurement; supply chain operations; business services; IT services; asset information services; and engineering services. Technical Authority has network-wide accountability - in accordance with our Licence to Operate and Safety Authorisation - for setting and monitoring compliance with the policy, strategy and control frameworks relating to safety; engineering; asset management; security; and environment and sustainability.

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). The ORR decides how much money it believes we need to run our business efficiently and to deliver what the UK and Scottish governments have asked for in each five-year control period.

### 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 our real estate portfolio, e.g., rental income from shops at stations. We also work closely with organisations willing to pay for projects that benefit them, our passengers and our freight users.

We work in five-year funding cycles called Control Periods (CP). The UK and Scottish Governments let us know what they need from the railway network in each CP and how much they can afford to pay for it. The 2022/23 financial year is the fourth and penultimate year of CP6, which runs from 1 April 2019 to 31 March 2024. It is our responsibility to deliver a railway which is efficient, reliable and safe. We must deliver reliable train performance daily and we're held to account for this throughout the CPs.

## Strategic report (continued)

The Office of Rail and Road (ORR), our independent regulator, fixes the amount we can charge train operating companies for using the railway network. The amount charged to train operating companies is reduced by grants received from the UK and Scottish Governments.

### Network Rail's vision

Our vision is

#### **"Putting Passengers First"**

We're continuing to implement our vision to be a company that's on the side of passengers and freight users. We want to be considered efficient, dependable and a company people are proud to work for. We've embedded a customer service mindset across our business to support this vision.

We developed our Putting Passengers First vision to address feedback received from customers, stakeholders and employees in 2018. It accords with our intention to deliver a more sustainable, efficient and joined-up railway. We identified six strategic priorities for delivering our vision. They're a vital consideration in the stakeholder actions we take.

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're reliant on our people to ensure that we can implement our vision to put passengers first. Our corporate values accord with our customer service mindset and our Putting Passengers First vision. 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've embedded a customer service mindset across our 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 to put **teamwork** at the heart of all that we do.

These values include our corporate behaviours which are accountability, challenge, collaboration and customer focus.

Our customer service mindset applies to Network Rail colleagues, irrespective of the part of the business they work in, and to other stakeholders. 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.

### 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. 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. Safely running the country's railway is of paramount importance to us. Our safety vision applies to passengers; other members of the public (for example, those living and working near the railway); our employees; and our contractors. Safety is a vital factor in the decisions we make during our works on the railway. We regularly measure our safety performance to help us to continually improve and work towards achieving our safety vision.

#### Train service delivery

We understand that passengers want a punctual and reliable train service. We're focussed on reducing delays and disruption for passengers and freight users by seeking to stop faults occurring. Improving both how we work and the technology we use to quickly find and fix faults means that we can return service levels to normal as promptly as possible.

#### Efficiency

The delivery of an affordable and efficient railway is a key priority. A substantial proportion of our funding comes from taxpayers. We understand our responsibility to spend this money wisely and to work as efficiently as possible to deliver value to our customers. The greater our efficiency, the more money we have to invest in providing an improved service for passengers.

We're continuing to use the latest technology and practices to speed up our work safely, both on and off the track. Completing improvement work more quickly means we're saving money and causing less delay and disruption for passengers and freight users.

#### Sustainable growth

It remains the case that one of our priorities is to work to improve the railway infrastructure where there is a strong business case to do so.

We reported on our Environmental Sustainability Strategy 2020-2050 in 2021/22. It commits us to delivering a low emission railway (we've set ourselves a reduction in carbon emissions target to be met by the end of the current Control Period); a reliable railway service that's 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 Network Rail Limited's 2023 accounts.

#### Customers and communities

We're continuing to improve the service we provide to our customers and communities by listening to what they need and responding appropriately. We've set ambitious targets to assist in terms of Putting Passengers First and being a more collaborative partner. We've also prepared detailed plans for various train station improvement works.

As reported last year, we're working closely with lineside neighbours - the people and businesses who live and work next to the railway - and looking to minimise the impact our track works may have on them. We've also continued to reduce the time it takes us to respond to any complaints we receive. We met our ambitious target for 2022/23.

## Strategic report (continued)

### Our strategic priorities (continued)

#### **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 operating 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. As a result of our devolution programme, 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. This enables us to deliver any changes more effectively.

**Regions** lead on local resourcing strategy and planning activities, bringing together engineering capability and management of our assets: these include track, bridges, signals, cuttings, etc. The regions are accountable for improving the railway network within their geographies, and are responsible for aspects of longer-term planning, including timetables 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. This is accomplished by providing network operations, freight, telecoms and technical expertise, and a number of different customer-focussed services to regional customers and other parts of our business. Route Services includes, among other teams: commercial and procurement; supply chain operations; business services; IT services; asset information services; and engineering services. The team oversees the delivery of national programmes and initiatives. It focuses on the provision of services for the benefit of passengers and also freight customers. Its work complements our Putting Passengers First vision.

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** takes a whole-system view of the railway and provides industry leadership in the development of long-term network strategies and advice to funders. Its work integrates the railway service we hope to deliver and the production of the railway timetable.

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

Our **CFO directorate** is made up of a number of 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 drive effective financial management and deliver the company's legal reporting and compliance requirements with our independent regulator - the ORR - and with third parties. They also lead the development and delivery of the network strategy and our business plan. In addition, the CFO directorate provides professional leadership and assurance on capital delivery affordability and holds the business to account for delivering sustainable efficiencies.

## Strategic report (continued)

### Our business model – How we are organised (Continued)

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

**Communications** is responsible for ensuring the Company presents a consistent narrative which places our customers at the heart of everything we do. It operates a business partnering approach with national functions and services; our devolved organisations have their own communications teams.

### Our approach to risk management

Network Rail recognizes 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.

#### Embedded risk management processes

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.
- **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



## Strategic report (continued)

### Our approach to risk management (continued)

- **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 25.

### 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, we have collectively and individually we fulfilled our duties, as set out 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 benefiting all our stakeholders. As a publicly owned, not-for dividend company, our activities and engagement are 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. 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 114 to 117. At the date of this report 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.

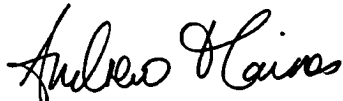
**Impact of operations on the community and the environment**

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)  
11 December 2023

## Directors' report

The directors present their audited financial statements of the company for the year ended 31 March 2023.

### Business review

For the year ended 31 March 2023 the group made a pre-tax loss of £1,181m (2022: £317m pre-tax profit) and the company made a pre-tax loss of £1,130m (2022: £211m pre-tax profit). The tax credit for the group for the year was £492m (2022: £1,044m tax charge).

In March 2022 RAIB published its report into the tragic loss of life at Carmont near Stonehaven, Aberdeenshire, following the derailment of a passenger train in August 2020. Network Rail Infrastructure Ltd plead guilty to failings under the Health and Safety at Work etc Act 1974 and was fined £6.7m plus 7.5% Victim Surcharge Fund amount of £502, 500 on 8th September 2023 at the High Court in Aberdeen. The Crown has confirmed there will be a Fatal Accident Inquiry and further information is expected to be received on this later in 2023 and the hearing is expected to take place in 2024.

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 (2022: £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

It is Network Rail's policy not to make political donations or to incur political expenditure in the UK and the EU. There were no political donations made in the current or prior years.

### Losses and special payments

Managing public money requires a statement showing losses and special payments by value and by type, to be shown where they exceed £300,000 in total and those that, individually, exceed £300,000. Losses may relate to cash and store losses, bookkeeping losses, losses arising from a failure to make adequate charge for the use of public property or services, fruitless payments and claims abandoned as well as frauds. Special payments may relate to extra-contractual, extra-statutory and ex-gratia payments and compensation.

Network Rail Limited had total losses and special payments in the current year amounting to £14m.

	2022-23		2021-22	
	Total number of cases	Total amount £000	Total number of cases	Total amount £000
Losses	37,143	13,483	27,051	12,801
Special payments	11	425	3	137
<b>Total</b>	<b>37,154</b>	<b>13,908</b>	<b>27,054</b>	<b>12,938</b>

## Directors' report (continued)

### 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 UK-adopted International Financial Reporting Standards (IFRSs). 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) 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.

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  
07 December 2023

# 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 2023 which comprise:

- Network Rail Infrastructure Limited and its Group's Balance Sheet as at 31 March 2023;
- Network Rail Infrastructure Limited Group's Income Statement and Statement of Comprehensive Income
- Network Rail Infrastructure Limited 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 Standards 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 Network Rail Infrastructure Limited and its Group's affairs as at 31 March 2023 and its loss for the year then ended; and
- have been properly prepared in accordance with the 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 (UK) (ISAs (UK)), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)*. 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 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
- the impact of ongoing work to implement the recommendations of the 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 the 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.

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.

### 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 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

## Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

### Matters on which I report by exception

In the light of the knowledge and understanding of 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;
- the financial statements to be audited are not in agreement with the accounting records and returns;
- certain disclosures of director's remuneration specified by law are not made;
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

### Responsibilities of the directors for the financial statements

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

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the [audited entity] from whom the auditor determines it necessary to obtain audit evidence.
- preparing Group financial statements, which give a true and fair view, in accordance with the Companies Act 2006;
- ensuring such internal controls are in place as directors determine are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- preparing the Annual Report, in accordance with the Companies Act 2006; and
- assessing 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 the group 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 (UK) (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.



## Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

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

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.

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, I:

- considered the nature of the sector, control environment and operational performance including the design of Network Rail Infrastructure Limited and its Group's accounting policies, key performance indicators and performance incentives.
- inquired 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 on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of 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, the Network Licence and Managing Public Money;
- inquired of management, Network Rail Infrastructure Limited's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations; and
  - they had knowledge of any actual, suspected, or alleged fraud;
- discussed with the engagement team including significant component audit teams and the relevant internal and external specialists, including internal IT auditors and external pension specialists 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 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.

I obtained an understanding of Network Rail Infrastructure Limited and its Group's framework of authority and other legal and regulatory frameworks in which Network Rail Infrastructure Limited and its Group operates. I focused 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.

Network Rail Infrastructure Limited

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## 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, employment law, pensions legislation, tax legislation, and health and safety law.

#### Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed 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;
- I enquired of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed 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, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated 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 communicated relevant identified laws and regulations and potential risks of fraud 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](http://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 expenditure and income 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.

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 I identify during my audit.



**Sarah Che (Senior Statutory Auditor)**

**13 December 2023**

For and on behalf of the

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

National Audit Office

157-197 Buckingham Palace Road, Victoria

London, SW1W 9SP

## Network Rail Infrastructure Limited

## Income statement

for the year ended 31 March 2023

	Note	2023 Group £m	2022 Group £m
Revenue	3	9,981	9,553
Net operating costs	4	(7,048)	(6,601)
<b>Operating profit</b>		<b>2,933</b>	<b>2,952</b>
Property revaluation movements and profits on disposal		(11)	51
<b>Profit from operations</b>	5	<b>2,922</b>	<b>3,003</b>
Finance income		3	1
Other gains and losses	8	92	157
Finance costs	9	(4,198)	(2,844)
<b>(Loss)/Profit before tax</b>		<b>(1,181)</b>	<b>317</b>
Tax	10	492	(1,044)
<b>Loss for the year attributable to the owner of the company</b>		<b>(689)</b>	<b>(727)</b>

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 £627m (2022: loss of £792m).

# Statement of comprehensive income

for the year ended 31 March 2023

	Notes	2023 Group £m	2022 Group £m
<b>Loss for the year</b>		<b>(689)</b>	<b>(727)</b>
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Gain on revaluation of the railway network	11	<b>4,803</b>	1,844
Actuarial gain on defined benefit pension schemes	26	<b>2,330</b>	966
Tax relating to components of other comprehensive income	21	<b>(1,783)</b>	(894)
<b>Total items that will not be reclassified to profit or loss</b>		<b>5,350</b>	1,916
Items that may be reclassified to profit or loss			
Reclassification of balances in the hedging reserve to the income statement		<b>83</b>	95
<b>Total items that may be reclassified to profit or loss</b>		<b>83</b>	95
<b>Other comprehensive income for the year</b>		<b>5,433</b>	2,011
<b>Total comprehensive income for the year</b>		<b>4,744</b>	1,284

## Network Rail Infrastructure Limited

## Statement of changes in equity

for the year ended 31 March 2023

Group	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
<b>Balance at 31 March 2022</b>	<b>160</b>	<b>85</b>	<b>2,837</b>	<b>1,458</b>	<b>(184)</b>	<b>5,977</b>	<b>10,333</b>
Loss for the year	-	-	-	-	-	(689)	(689)
Other comprehensive income:							
Revaluation of the railway network	-	-	4,803	-	-	-	4,803
Transfer of deemed cost depreciation from revaluation reserve	-	-	(114)	-	-	114	-
Increase in deferred tax liability on the railway network	-	-	(1,201)	-	-	-	(1,201)
Actuarial gain on defined benefit pension schemes	-	-	-	-	-	2,330	2,330
Deferred tax on actuarial gain	-	-	-	-	-	(582)	(582)
Transfer between reserves - deferred tax	-	-	29	-	-	(29)	-
Reclassification of balances in hedging reserve to the income statement	-	-	-	-	83	-	83
<b>Total comprehensive income for the year:</b>	<b>-</b>	<b>-</b>	<b>3,517</b>	<b>-</b>	<b>83</b>	<b>1,144</b>	<b>4,744</b>
<b>Balance at 31 March 2023</b>	<b>160</b>	<b>85</b>	<b>6,354</b>	<b>1,458</b>	<b>(101)</b>	<b>7,121</b>	<b>15,077</b>

\* Other reserves of £1,458m (2022: £1,458m) include the vesting reserve on privatisation.

Group	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
<b>Balance at 31 March 2021</b>	<b>160</b>	<b>85</b>	<b>1,597</b>	<b>1,458</b>	<b>(279)</b>	<b>6,028</b>	<b>9,049</b>
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
<b>Total comprehensive income for the year:</b>	<b>-</b>	<b>-</b>	<b>1,240</b>	<b>-</b>	<b>95</b>	<b>(51)</b>	<b>1,284</b>
<b>Balance at 31 March 2022</b>	<b>160</b>	<b>85</b>	<b>2,837</b>	<b>1,458</b>	<b>(184)</b>	<b>5,977</b>	<b>10,333</b>

\* Other reserves of £1,458m (2022: £1,458m) include the vesting reserve on privatisation.

## Network Rail Infrastructure Limited

Company	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
<b>Balance at 31 March 2022</b>	<b>160</b>	<b>85</b>	<b>2,837</b>	<b>1,458</b>	-	<b>5,708</b>	<b>10,248</b>
Loss for the year	-	-	-	-	-	(627)	(627)
Other comprehensive income:							
Revaluation of the railway network	-	-	4,803	-	-	-	4,803
Transfer of deemed cost depreciation from revaluation reserve	-	-	(114)	-	-	114	-
Increase in deferred tax liability on the railway network	-	-	(1,201)	-	-	-	(1,201)
Actuarial gain on defined benefit pension schemes	-	-	-	-	-	2,330	2,330
Deferred tax on actuarial gain	-	-	-	-	-	(582)	(582)
Deferred tax on transfer between reserves	-	-	29	-	-	(29)	-
Reclassification of balances in hedging reserve to the income statement	-	-	-	-	-	-	-
<b>Total comprehensive income for the year:</b>	-	-	<b>3,517</b>	-	-	<b>1,206</b>	<b>4,723</b>
<b>Balance at 31 March 2023</b>	<b>160</b>	<b>85</b>	<b>6,354</b>	<b>1,458</b>	-	<b>6,914</b>	<b>14,971</b>

\* Other reserves of £1,458m (2022: £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
<b>Balance at 31 March 2021</b>	<b>160</b>	<b>85</b>	<b>1,597</b>	<b>1,458</b>	<b>(24)</b>	<b>5,824</b>	<b>9,100</b>
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
<b>Total comprehensive income for the year:</b>	-	-	<b>1,240</b>	-	<b>24</b>	<b>(116)</b>	<b>1,148</b>
<b>Balance at 31 March 2022</b>	<b>160</b>	<b>85</b>	<b>2,837</b>	<b>1,458</b>	-	<b>5,708</b>	<b>10,248</b>

\* Other reserves of £1,458m (2022: £1,458m) include the vesting reserve on privatisation.

## Network Rail Infrastructure Limited


## Balance sheets

at 31 March 2023

	Notes	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets		59	60	-	-
Right of use assets	24	408	424	408	424
Property, plant and equipment – the railway network	11	82,733	75,890	82,733	75,890
Investment property	12	231	212	208	212
Investment in subsidiaries	14	-	-	329	320
Interest in joint ventures	14	28	27	3	3
Derivative financial instruments	19	72	9	1	-
Loans to subsidiaries	27	-	-	57	64
		<b>83,531</b>	<b>76,622</b>	<b>83,739</b>	<b>76,913</b>
<b>Current assets</b>					
Assets held for sale	13	4	36	4	13
Inventories	15	349	299	343	293
Trade and other receivables	16	1,730	1,631	1,591	1,352
Current tax assets		49	-	65	6
Derivative financial instruments	19	21	4	-	-
Cash and cash equivalents	18	303	477	-	161
		<b>2,456</b>	<b>2,447</b>	<b>2,003</b>	<b>1,825</b>
<b>Total assets</b>		<b>85,987</b>	<b>79,069</b>	<b>85,742</b>	<b>78,738</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	17	(3,735)	(3,664)	(3,662)	(3,580)
Current tax liabilities		-	(1)	-	-
Borrowings	18	(4,037)	(2,801)	(4,036)	(2,800)
Derivative financial instruments	19	(49)	(55)	(139)	(252)
Short-term provisions	20	(68)	(78)	(68)	(78)
		<b>(7,889)</b>	<b>(6,599)</b>	<b>(7,905)</b>	<b>(6,710)</b>
<b>Net current liabilities</b>		<b>(5,433)</b>	<b>(4,152)</b>	<b>(5,902)</b>	<b>(4,885)</b>
<b>Non-current liabilities</b>					
Borrowings	18	(55,463)	(53,982)	(55,502)	(53,865)
Derivative financial instruments	19	(182)	(206)	-	-
Other payables	17	(546)	(410)	(545)	(390)
Retirement benefit obligation	26	(215)	(2,259)	(215)	(2,259)
Deferred tax liabilities	21	(6,615)	(5,280)	(6,604)	(5,266)
		<b>(63,021)</b>	<b>(62,137)</b>	<b>(62,866)</b>	<b>(61,780)</b>
<b>Total liabilities</b>		<b>(70,910)</b>	<b>(68,736)</b>	<b>(70,771)</b>	<b>(68,490)</b>
<b>Net assets</b>		<b>15,077</b>	<b>10,333</b>	<b>14,971</b>	<b>10,248</b>
<b>Equity</b>					
Share capital	22	160	160	160	160
Share premium account		85	85	85	85
Revaluation reserve		6,354	2,837	6,354	2,837
Other reserve		1,458	1,458	1,458	1,458
Hedging reserve		(101)	(184)	-	-
Retained profit		7,121	5,977	6,914	5,708
<b>Total equity</b>		<b>15,077</b>	<b>10,333</b>	<b>14,971</b>	<b>10,248</b>

The financial statements and notes on pages 18 to 76 were approved by the board of directors on 21 September 2023 and authorised for issue on the date of the auditor's report. They were signed on 11 December 2023 on its behalf by:

  
Andrew Haines, Director

  
Jeremy Westlake, Director

Company number:  
02904587

## Network Rail Infrastructure Limited

## Statement of cash flows

for the year ended 31 March 2023

	Note	2023 Group £m	2022 Group £m (Restated)	2023 Company £m	2022 Company £m (Restated)
<b>Cash flow from operating activities</b>					
Cash generated from operations	23	5,417	5,278	5,378	5,245
Interest paid*		(1,176)	(1,232)	(1,176)	(1,200)
Income tax paid		(2)	-	(2)	-
<b>Net cash flows generated from operating activities</b>		<b>4,239</b>	<b>4,046</b>	<b>4,200</b>	<b>4,045</b>
<b>Investing activities</b>					
Interest received		3	1	5	1
Purchases of property, plant and equipment		(6,522)	(6,182)	(6,522)	(6,182)
Proceeds on disposal of property		29	82	29	82
Capital grants received		2,234	2,131	2,234	2,131
Investment in subsidiaries and joint ventures		-	-	(9)	-
Dividend from subsidiaries		-	-	13	-
Net cash inflows from joint ventures		2	11	-	-
Loan to subsidiaries		-	-	7	3
<b>Net cash used in investing activities</b>		<b>(4,254)</b>	<b>(3,957)</b>	<b>(4,243)</b>	<b>(3,965)</b>
<b>Financing activities</b>					
Repayments of borrowings		(110)	(442)	(110)	(12)
New loans raised		-	270	-	270
Decrease in collateral placed		114	114	-	-
Increase/(Decrease) in collateral received		2	(105)	-	-
Repayments of lease liabilities		(140)	(133)	(140)	(133)
Movement in intercompany borrowings		-	-	132	(263)
Cash flow on settlement of derivatives		(25)	162	-	-
Increase/(Decrease) in bank overdraft		-	-	-	(70)
<b>Net cash used in financing activities</b>		<b>(159)</b>	<b>(134)</b>	<b>(118)</b>	<b>(208)</b>
<b>Net movement in cash and cash equivalents</b>		<b>(174)</b>	<b>(45)</b>	<b>(161)</b>	<b>(128)</b>
Cash and cash equivalents at beginning of the year		477	522	161	289
<b>Cash and cash equivalents at end of the year</b>		<b>303</b>	<b>477</b>	<b>-</b>	<b>161</b>

\* Balance includes the net interest on derivative financial instruments



# Notes to the financial statements

for the year ended 31 March 2023

## 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 Waterloo General Office, London, SE1 8SW, 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

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.

### Prior Year Restatement

The cash flow statement has been restated to amend the presentation of loan drawdowns from the Department for Transport. Each loan under the facility with the Department for Transport is a distinct financial instrument. When each instrument is settled and a new instrument is drawn down, for treasury management purposes, the transactions are netted off each other by the Department for Transport and no cash is exchanged. Previously, these had been presented as though cash had been exchanged. The restatement removes these amounts from the cash flow statement. In the period £2,680m of new loans from DfT were issued to refinance maturing loans from DfT with the transactions being netted off rather than settled by cashflows.

### 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 2022.

The following accounting standard has 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 2023

## 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. 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 Plan for Rail Review and its plans to reform the rail industry. This proposes that 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 Limited but in any event Great British Railways will assume the existing functions of Network Rail Limited 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 group has considerable financial resources together with long-term contracts with a number of customers and suppliers. Network Rail 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 (DfT) and revenue from customers. Network Rail Infrastructure Limited has secured a £32.3bn loan facility with the 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. In addition, the work NRIL does on behalf of Great British Railways Transition Team is recharged to GBRTT which has a separate grant agreement with DfT.

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 25 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 2023

## 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:

Revenue stream	Recognition
• Grant income	Recognised in line with costs incurred that the grant is provided to cover - See "Grants" accounting policy.
• Franchised network access • Freight revenue • Other income	Recognised as access is provided to run trains.
• Property rental income	Recognised in accordance with the provision of the property.

#### *Franchised network access and Freight Revenue*

Network Rail earn income from providing access to Train Operating Companies (TOCs) and Freight Operating Companies (FOCs) to run trains on the network.

Performance obligations for the running of the trains 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 TOCs and FOCs. There are no significant judgments applied to determine whether performance obligations have been satisfied because it is readily apparent whether the train has run or not.

Revenue is measured based on consideration specified in a contract with the TOC or FOC. The amounts recognised take account of any performance penalties or bonuses in respect of the year. The performance penalties and bonuses are estimated in each four-week period based on that period's performance and reflect management's best estimate of the amounts due.

#### *Property rental income*

Fixed rental income from property leases is recognised on a straight-line basis over the term of the relevant lease. Contingent rent is recognised as earned.

### Grants

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

Revenue Grants arise from the deeds of grant agreed at the start of each control period. They are received as a contribution towards NRIL's running costs and are recognised across the control period to match the expenditure to which they relate. Grants can be drawn down flexibly to meet our working capital requirements.

# Notes to the financial statements

for the year ended 31 March 2023

## 2. Significant accounting policies (continued)

To the extent that they are drawn in advance of expenditure, to meet temporary working capital requirements, then they are deferred until that expenditure is incurred. The deferred income is then released to profit/loss as the related expenditure is incurred.

NRIL funds its renewals programme through its net cash generated from operations, which is the net of cash received or spent on operations and includes revenue grants. The assets constructed under the renewals programme meet the definition of Property Plant and Equipment and are capitalised as additions in the year.

It is noted that determination of charges undertaken by the Office of Rail and Road sets track access charges after taking into account government grants. Part of the determination of charges includes an allowance for the amortisation of the Regulatory Asset Base (RAB). This allows the funding of renewals of the railway network in a financially sustainable manner. Currently the value of RAB amortisation is equal to the renewals incurred in the year. The RAB is used to underpin the valuation of the railway. The valuation movement in the year is reflected in the revaluation reserve. The revaluation reserve is reduced by the difference between RAB amortisation (which our revenue covers as described above) and PPE depreciation reflected in our operating costs.

### Grants (continued)

Capital Grants are received as contributions towards the cost of property, plant and equipment from DfT, TS and third parties. NRIL 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 cost 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.

Rental income from operating leases and initial direct costs are recognised on a straight-line basis over the term of the relevant lease.

#### 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

# Notes to the financial statements

for the year ended 31 March 2023

## 2. Significant accounting policies (continued)

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.

### 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.

### 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 26.

# Notes to the financial statements

for the year ended 31 March 2023

## 2. Significant accounting policies (continued)

### 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.

### 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 (2022: 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.

# Notes to the financial statements

for the year ended 31 March 2023

## 2. Significant accounting policies (continued)

### 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 11. 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.

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.

# Notes to the financial statements

for the year ended 31 March 2023

## 2. Significant accounting policies (continued)

### 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.

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



# Notes to the financial statements

for the year ended 31 March 2023

## 2. Significant accounting policies (continued)

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 18, 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.

### 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.

# Notes to the financial statements

for the year ended 31 March 2023

## 2. Significant accounting policies (continued)

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

Embedded derivatives within a host contract that is a financial liability are separated from the host contract and accounted for as a derivative financial instrument when economic characteristics of the embedded derivative and host are not closely related, an identical instrument (with the same terms) would meet the definition of a derivative, and the entire contract is not measured at fair value through profit or loss. Gains or losses from the movement in fair value of the financial instrument are reported in the income statement. There are no separated embedded derivatives included in the financial statements.

Note 19 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.

### 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 11.

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 11.

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

# Notes to the financial statements

for the year ended 31 March 2023

## 2. Significant accounting policies (continued)

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 17) are recognised on the basis of expected amounts required to settle contractual obligations. COWD assessments are predominantly based on information readily available to project managers on the status of works, but some estimation uncertainty is involved in the year-end measurement, in respect of the evaluation of how contractual dispute positions are likely to resolve, and in measuring the value of works performed at the precise year end date.

(ii) **Investment property** – an element of the investment property portfolio valuation is determined using the Beacon method. Jones Lang LaSalle provided their assessment of yields for 17 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 12.

(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 26. The total contribution rate payable under the Railway Pension Scheme (RPS) and the Career Average Revalued Earnings (CARE) scheme is normally split in the proportion 60:40 between the 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 10.

## 3. Revenue

	2023 Group £m	2022 Group £m
Grant income	7,482	6,513
Franchised network access	2,221	2,768
Freight revenue	11	53
Property rental income	219	177
Other income	48	42
<b>Revenue for the year</b>	<b>9,981</b>	<b>9,553</b>

The effect of the performance regimes was a net loss of £609m (2022: net profit of £182m) which is included in the Franchised network access line in the above table. This led to an increase in revenue in the Grant Income line as additional grant was drawn down.

# Notes to the financial statements

for the year ended 31 March 2023

## 4. Net operating costs

	2023 Group £m	2022 Group £m
Employee costs (see note 6)	2,827	2,975
Own costs capitalised	(940)	(1,061)
Maintenance external charges	1,152	1,003
Energy charges	698	583
Business rates	269	261
Telecommunications and IT	204	180
Operational external charges	950	892
Other industry costs	150	136
Other operating income and recoveries	(369)	(326)
<b>Net operating costs before depreciation and amortisation</b>	<b>4,941</b>	<b>4,643</b>
Depreciation (see note 11 and 24)	2,405	2,198
Capital grants amortised	(298)	(240)
<b>Net operating costs</b>	<b>7,048</b>	<b>6,601</b>

Other operating income and recoveries includes income earned by the group's trading subsidiaries and ancillary income

## 5. Profit from operations

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

	2023 Group £m	2022 Group £m
Amortisation of intangible assets	1	1
Research and development costs	20	38
Profit on sale of properties	-	(19)
Decrease/(Increase) in the fair value of investment properties	11	(32)
Cost of inventories recognised as an expense	162	169
Write down of inventories recognised as an expense	4	5
<b>Amounts payable to auditors</b>		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.53	0.49
Fees payable to the company's auditors for other audit related services:		
- The audit of the company's subsidiaries	0.07	0.06
- Regulatory accounts audit and interim review	0.07	0.07
<b>Total amounts payable to auditors</b>	<b>0.67</b>	<b>0.62</b>

## Notes to the financial statements

for the year ended 31 March 2023

### 5. Profit from operations (continued)

For financial years ended 31 March 2023 and 2022 no fees were 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 group pays £0.3m 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:

	2023 Group	2022 Group
Management and operation of the railway	41,659	44,255

Group	2023 Group £m	2022 Group £m
<b>Their aggregate remuneration comprised:</b>		
Wages and salaries	2,218	2,311
Social security costs	258	261
Defined contribution pension costs (see note 26)	27	24
Defined benefit pension costs – current service costs (see note 26)	324	379
	<b>2,827</b>	<b>2,975</b>

### 7. Directors' remuneration

	2023 Group £m	2022 Group £m
Total directors' emoluments (including non-executive directors)	2	2
Post-employment benefits - contributions to money purchase pension schemes	-	-
	<b>2</b>	<b>2</b>

In the year ended 31 March 2023 and 31 March 2022 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 (2022: £1.3m) and aggregate post-employment benefits payable of £0.04m (2022: £0.04m). 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 2023

### 8. Other gains and losses

	2023 Group	2022 Group
	£m	£m
Net decrease in fair value of non-hedge accounted debt	7	-
Gain on derivatives not hedge accounted	85	157
<b>Total other gains</b>	<b>92</b>	<b>157</b>

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.

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 18.

### 9. Finance costs

	2023 Group £m	2022 Group £m
Interest on bank loans and overdrafts	68	26
Interest on loan issued by Department of Transport	640	611
Interest on bonds issued under the Debt Issuance Programme	3,318	1,987
Interest on derivative instruments	99	149
Defined benefit pension interest cost (see note 26)	60	60
Interest on leases	13	11
<b>Total finance costs</b>	<b>4,198</b>	<b>2,844</b>

An increase of £1,379m accretion on index linked bonds has driven the increase on Interest on bonds issued under the Debt Issuance Programme.

## Notes to the financial statements

for the year ended 31 March 2023

### 10. Tax

The tax credit/(charge) is made up as follows:

	2023 Group £m	2022 Group £m
<b>Current tax:</b>		
Corporation tax liability	(1)	-
Adjustment in respect of prior years	50	(3)
<b>Total current tax credit/(charge)</b>	<b>49</b>	<b>(3)</b>
<b>Deferred tax:</b>		
Current year credit/(charge)	258	(97)
Effect of rate change	-	(883)
Adjustment in respect of prior years	185	(61)
<b>Total deferred tax credit/(charge)</b>	<b>443</b>	<b>(1,041)</b>
<b>Total tax credit/(charge)</b>	<b>492</b>	<b>(1,044)</b>

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

	2023 Group £m	2022 Group £m
(Loss)/Profit before tax	(1,181)	317
Tax charge on profit 19 per cent (2022: 19 per cent)	224	(60)
Adjustment in respect of prior years	235	(64)
Effect of rate change	-	(883)
Expenditure not subject to tax	26	(12)
De-recognition of tax assets – brought forward	7	(25)
<b>Total tax credit/(charge) for the year</b>	<b>492</b>	<b>(1,044)</b>

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. As in 2022, it remains improbable that Network Rail will produce a level of taxable profits that will allow for recognition of a deferred tax asset relating to the trading losses carried forward. Network Rail uses all its profits to fund capital expenditure. Management's current assessment is that there will be no significant taxable income for the year to 31 March 2024. Beyond the current funding regime, there is no certainty over the funding mechanism of Network Rail and hence the use of any losses

Deferred tax at 31 March 2023 is calculated at a rate of 25 per cent (2022: 25 per cent) based on the tax rate expected to prevail based on legislative enactments at the point temporary differences resolve. 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 (2022: 19 per cent). In Budget 2021 it was announced the corporation tax rate will increase to 25% with effect from 1 April 2023.

## Notes to the financial statements

for the year ended 31 March 2023

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

Group and Company	Group assets £m	Group capital grants deferred £m	Group carrying value £m
<b>Valuation</b>			
<b>At 31 March 2021</b>	<b>80,779</b>	<b>(8,781)</b>	<b>71,998</b>
Additions – Enhancements	2,200	(2,200)	-
Additions - Renewals	3,939	-	3,939
<b>Total Additions</b>	<b>6,139</b>	<b>(2,200)</b>	<b>3,939</b>
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
<b>At 31 March 2022</b>	<b>86,631</b>	<b>(10,741)</b>	<b>75,890</b>
Additions – Enhancements	2,445	(2,445)	-
Additions - Renewals	4,046	-	4,046
<b>Total Additions</b>	<b>6,491</b>	<b>(2,445)</b>	<b>4,046</b>
Disposals	(28)	-	(28)
Transfers to held for sale	-	-	-
Transfers from investment property	2	-	2
(Depreciation charge)/ grant amortisation for the year	(2,278)	298	(1,980)
Revaluation in the year	4,803	-	4,803
<b>At 31 March 2023</b>	<b>95,621</b>	<b>(12,888)</b>	<b>82,733</b>

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

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

The independent rail regulator, the Office of Rail and Road (ORR), has stated (in the 2018 periodic review final determination: Supplementary document – financial framework) that a private network licence holder of the railway network would have its revenue requirement determined using the building block model of regulation. Under this model the network licence holder's annual income (received in the form of the network grant and track access charges) would comprise:

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



# Notes to the financial statements

for the year ended 31 March 2023

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

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

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

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

- a) Adjustment for any difference between regulatory rate of return and the market cost of capital that a third-party investor would use to assess the value of the network 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.

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 £4,803m upward movement in the value of the railway. There are 3 key drivers for the valuation, being the difference between:

- The impact of indexation inflation (£8.2bn increase in the valuation) offset by,
- The rate of return in the WACC has been adjusted by 2% for the remainder of the Control Period as a result of significant increases in the cost of borrowing since the ORR determined the weighted average cost of capital for CP6 in 2018. This results in a decrease in the valuation of £1.7bn. The valuation is sensitive to the WACC assumption. If WACC varied by 100bps then the valuation would increase by an additional £0.8bn and depreciation by £10m in the valuation of the network, and
- The rate at which assets are amortised in the RAB and assets are depreciated under IAS 16 (£1.8bn decrease in the valuation).

In line with regulatory guidance, indexation inflation was based on the November 2022 CPI, of 10.7 per cent.

### Third party funding

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

# Notes to the financial statements

for the year ended 31 March 2023

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

### Disposals

The disposals of £28m 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 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 (2022: 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 original pre-tax (CPI) WACC of 4.15% set out in their final determination for this Control Period amended for the movement since then. 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 2023	31 March 2022
Change in fair value	25	£196m	£332m
	50	£391m	£666m
Percentage change in fair value	25	0.2%	0.4%
	50	0.5%	0.9%
Change in annual depreciation charge	25	£2m	£8m
	50	£5m	£17m

### 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.

# Notes to the financial statements

for the year ended 31 March 2023

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

### Forecast performance variations (continued)

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 2023 the valuation included £150m of projected outperformance (31 March 2022: £200m of projected underperformance) which is expected to crystallise in the income statement over the next year. 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 performance for the remaining year 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 adjustments to expected performance are the key drivers for the £350m reduction in the PVCFA in the period.

Measures taken to change franchise contracts by both DfT and TS has continued to allow train operating companies 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 CP6 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. Given significant increases in the cost of borrowing, an 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 company's investment properties. In accordance with IAS 40 Investment Property and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations the fair value of investment property and assets held for sale is separately recognised in Notes 12 and 13 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 2023 includes a downwards adjustment of £212m to exclude the fair value of relevant investment property and relevant assets held for sale (31 March 2022: £224m).
- f) When considering the appropriateness of the valuation methodology, the Directors took into account the publication of the 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 2023 the group had entered into contractual commitments in respect of capital expenditure amounting to £3,543m (2022: £3,631m).

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 2023

### 12. Investment property

	Group £m	Company £m
<b>Valuation</b>		
<b>At 31 March 2021</b>	<b>212</b>	<b>212</b>
Additions	1	1
Disposals	(36)	(36)
Transfers (to)/from PPE	11	11
Transfers (to)/from assets held for sale	(8)	(8)
Increase / (decrease) in fair value in the year	32	32
<b>At 31 March 2022</b>	<b>212</b>	<b>212</b>
Additions	1	1
Disposals	(1)	(1)
Transfers to PPE	(2)	(2)
Transfers from assets held for sale	32	9
Decrease in fair value in the year	(11)	(11)
<b>At 31 March 2023</b>	<b>231</b>	<b>208</b>

The market values of the group's investment properties at 31 March 2023 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 are satisfied that Jones Lang LaSalle hold a recognised and relevant professional qualification, and have had recent experience in the location and category of the investment property being valued. The fair value of the 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 19 one-off individual properties (2022: 15), amounting to 46 per cent (2022: 47 per cent) of the total valuation. The balance of the estate was valued under the Beacon method by splitting the portfolio into 17 homogeneous classes (2022: 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 year-end as investment property, all of which is leased out under operating leases, amounted to £14.1m (2022: £12.9m). Direct operating expenses arising on the investment properties in the year amounted to £2.8m (2022: £3m).

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 2023

### 12. Investment property (continued)

Group	Fair value at 31 March 2023 £m	Estimated rental value per sq. ft			Equivalent yield		
		Minimum	Maximum	Weighted Average	Minimum	Maximum	Weighted Average
		£	£	£	%	%	%
Valuation technique:							
One-off valuation	107	0.39	148.29	6.98	4.5	12.2	6.97
Beacon method*	124	n/a	n/a	n/a	5	14.5	8.1

\* The Beacon methodology splits all the properties within the portfolio into 17 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.

### 13. Assets held for sale

Group and company	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
At 1 April	36	28	13	5
Transfer (to)/from investment property	(32)	8	(9)	8
At 31 March	4	36	4	13

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

### 14. Investment in subsidiaries and joint ventures

Company	2023 £m	2022 £m
Beginning of year	320	320
Additions in year	9	-
Disposals in the year	-	-
End of year	329	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.

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 Infrastructure Limited

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
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)

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.

# Notes to the financial statements

for the year ended 31 March 2023

## 14. Investment in subsidiaries and joint ventures (continued)

Joint ventures	Country of incorporation	Proportion of all classes of issued share 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
Blocwork (No. 4) LLP	Great Britain	50%	Property development
Blocwork (No. 5) 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 2023

### 14. Investment in subsidiaries and joint ventures (continued)

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

	2023 Group £m	2022 Group £m
At 1 April	27	38
Investment in joint ventures	5	8
Equity Repayment	(7)	(13)
Share of profit/(loss)	3	(6)
<b>At 31 March</b>	<b>28</b>	<b>27</b>

### 15. Inventories

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
Raw materials and consumables	349	299	343	293

As at 31 March 2023 a provision of £28m (2022: £29m) was held in respect of inventories for the group and the company provision was £24m (2022: £25m).

### 16. Trade and other receivables

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
<b>Current assets: trade and other receivables</b>				
Trade receivables:				
- receivable from contracts with other customers	301	321	301	325
- receivable from property portfolio customers	123	124	123	124
Capital grants receivable	602	486	602	486
Other taxation and social security	198	148	200	152
Collateral receivable	141	255	-	-
Other receivables	85	50	80	15
Prepayments	82	76	93	83
Accrued income:				
- receivable from contracts with other customers	131	121	131	121
- receivables from property portfolio customers	67	50	61	46
<b>Total</b>	<b>1,730</b>	<b>1,631</b>	<b>1,591</b>	<b>1,352</b>

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

Trade receivables include an allowance for estimated irrecoverable amounts from the supply of services of £52m (2022: £43m). 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 2023

## 16. Trade and other receivables (continued)

receivables overdue by over six months. The group average debtor days were 63 days (2022: 49 days) and for the company, the average debtor days were 64 days (2022: 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 £78m (2022: £62m) 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 26 days (2022: 23 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:

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
Past due by 1-28 days	58	43	58	43
Past due by 29-56 days	21	11	21	11
Past due by 57-84 days	9	3	6	3
Past due by 85-180 days	8	17	8	17
	<b>96</b>	<b>74</b>	<b>93</b>	<b>74</b>

Trade receivables of £31m (2022: £30m) are overdue by six months or more and have been fully provided for.

## 17. Trade and other payables

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
<b>Current liabilities: trade and other payables</b>				
Trade payables	(1,124)	(731)	(1,116)	(730)
Collateral received from counterparties	(2)	-	-	-
Payments received on account	(43)	(45)	(39)	(41)
Other payables	(441)	(531)	(407)	(492)
Other interest accruals	(269)	(250)	(263)	(244)
Other accruals	(884)	(968)	(878)	(960)
Deferred income	(972)	(1,139)	(959)	(1,113)
	<b>(3,735)</b>	<b>(3,664)</b>	<b>(3,662)</b>	<b>(3,580)</b>

## Notes to the financial statements

for the year ended 31 March 2023

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

Deferred income includes £792m (31 March 2022: £831m) 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'.

The group average credit period taken for trade purchases is 38 days (2022: 30 days). For the company, the average credit period taken for trade purchases is 38 days (2022: 30 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.

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
<b>Non-current liabilities: other payables</b>				
Capital grants deferred income	(417)	(392)	(416)	(376)
Other payables	(129)	(18)	(129)	(14)
	<b>(546)</b>	<b>(410)</b>	<b>(545)</b>	<b>(390)</b>

# Notes to the financial statements

for the year ended 31 March 2023

## 18. Borrowings

The borrowings balance is split as follows:

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
<b>Net borrowings by instrument:</b>				
Cash and cash equivalents	303	477	-	161
Collateral placed with counterparties	141	255	-	-
Collateral received from counterparties	(2)	-	(2)	-
Bank loans and overdraft	(608)	(542)	-	-
Lease liabilities	(407)	(420)	(407)	(420)
Bonds issued under the Debt Issuance Programme (Less unamortised premium, discount and fees)	(27,649)	(24,880)	-	-
Department for Transport facility borrowings*	(30,836)	(30,941)	(30,836)	(30,941)
Intercompany borrowings	-	-	(28,295)	(25,304)
	<b>(59,058)</b>	<b>(56,051)</b>	<b>(59,540)</b>	<b>(56,504)</b>
<b>Movements in net borrowings</b>				
At the beginning of the year	(56,051)	(54,679)	(56,504)	(54,937)
(Decrease) / increase in cash and cash equivalents	(174)	(45)	(161)	(128)
Proceeds from borrowings	(2,680)	(7,888)	(2,680)	(7,888)
Repayments of borrowings**	2,680	8,050	2,680	7,620
Capital accretion	(2,876)	(1,497)	-	-
Exchange differences	-	-	-	-
Movement in collateral received from counterparties	(2)	105	(2)	-
Movement in collateral placed with counterparties	(114)	(114)	-	-
Movement in lease liabilities (see Note 24)	13	(34)	13	(34)
Decrease/(increase) in DfT collateral facility**	110	10	110	10
Fair value and other movements	36	41	(5)	-
Net movement in intercompany borrowings	-	-	(2,991)	(1,217)
Movement in bank loans and overdrafts	-	-	-	70
<b>At the end of the year</b>	<b>(59,058)</b>	<b>(56,051)</b>	<b>(59,540)</b>	<b>(56,504)</b>
Net borrowings are reconciled to the balance sheet as set out below:				
Cash and cash equivalents	303	477	-	161
Collateral placed with counterparties (included in trade and other receivables)	141	255	-	-
Collateral received from counterparties (included in trade and other payables)	(2)	-	(2)	-
Borrowings included in current liabilities	(4,037)	(2,801)	(4,036)	(2,800)
Borrowings included in non-current liabilities	(55,463)	(53,982)	(55,502)	(53,865)
	<b>(59,058)</b>	<b>(56,051)</b>	<b>(59,540)</b>	<b>(56,504)</b>

\* As at 31 March 2023, a collateral facility of £140m (2022: £250m) 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 2023

## 18. Borrowings (continued)

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
1.085% sterling index linked bond due 2052	175	154	-	-
0% sterling index linked bond due 2052	195	171	-	-
1.003% sterling index linked bond due 2051	33	29	-	-
0.53% sterling index linked bond due 2051	169	149	-	-
0.517% sterling index linked bond due 2051	169	149	-	-
0% sterling index linked bond due 2051	196	172	-	-
0.678% sterling index linked bond due 2048	166	146	-	-
1.125% sterling index linked bond due 2047	7,127	6,317	-	-
0% sterling index linked bond due 2047	127	111	-	-
1.1335% sterling index linked bond due 2045	68	60	-	-
1.5646% sterling index linked bond due 2044	366	325	-	-
1.1565% sterling index linked bond due 2043	76	67	-	-
1.1795% sterling index linked bond due 2041	93	82	-	-
1.2219% sterling index linked bond due 2040	358	319	-	-
1.2025% sterling index linked bond due 2039	102	90	-	-
4.6535% sterling bond due 2038	100	100	-	-
1.375% sterling index linked bond due 2037	7,050	6,230	-	-
4.75% sterling bond due 2035	1,237	1,236	-	-
1.6492% sterling index linked bond due 2035	544	485	-	-
4.375% sterling bond due 2030	873	873	-	-
1.75% sterling index linked bond due 2027	6,763	6,000	-	-
4.615% Norwegian krone bond due 2026*	40	45	-	-
4.57% Norwegian krone bond due 2026*	11	13	-	-
1.9618% sterling index linked bond due 2025	462	411	-	-
4.75% sterling bond due 2024	749	747	-	-
3% sterling bond due 2023	400	399	-	-
	<b>27,649</b>	<b>24,880</b>	-	-

\* 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.

Bank loans are analysed as follows:

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
Index-linked European Investment Bank	608	542	-	-
	<b>608</b>	<b>542</b>	-	-

## Notes to the financial statements

for the year ended 31 March 2023

### 18. Borrowings (continued)

At 31 March 2023 and 2022 the group and company had the following undrawn committed borrowing facilities at nominal value:

	2023 Drawn £m	2023 Undrawn £m	2023 Total £m	2022 Drawn £m	2022 Undrawn £m	2022 Total £m
Department for Transport loan facility	30,696	1,594	32,290	30,691	1,150	31,841
Department for Transport collateral facility	140	60	200	250	50	300
	<b>30,836</b>	<b>1,654</b>	<b>32,490</b>	<b>30,941</b>	<b>1,200</b>	<b>32,141</b>

The DfT loan facility is shown net of unamortised fees.

Undrawn committed facilities expire as follows:

Group and company	2023 £m	2022 £m
Within one year	-	-
Within two to five years	1,594	1,150
After five years	60	50
	<b>1,654</b>	<b>1,200</b>

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 an asset disposal, this facility was reduced to £31,859m. In the year, the holders of certain bonds within the debt issuance programme had the option to request repayment. As a result, the facility was increased by £444m. This remained undrawn at 31 March 2023 as the option to request repayment of these bonds was not taken. 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 2023

### 19. Derivative financial instruments

Group	Group			
	2023		2022	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
<b>Non-hedge accounted derivatives</b>				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	-	-	5	56
Interest rate swaps	91	3,905	7	2,010
Forward foreign exchange contracts	2	35	1	30
	<b>93</b>	<b>3,940</b>	<b>13</b>	<b>2,096</b>
Included in non-current assets	72	2,255	9	511
Included in current assets	21	1,685	4	1,585
	<b>93</b>	<b>3,940</b>	<b>13</b>	<b>2,096</b>
<b>Derivative financial instrument liabilities</b>				
<b>Non-hedge accounted derivatives</b>				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	(5)	56	-	-
Interest rate swaps to hedge debt issued under the Debt Issuance Programme	(226)	3,905	(261)	11,310
Forward foreign exchange contracts	-	3	-	28
	<b>(231)</b>	<b>3,964</b>	<b>(261)</b>	<b>11,338</b>
Included in current liabilities	(49)	1,668	(55)	3,666
Included in non-current liabilities	(182)	2,296	(206)	7,672
	<b>(231)</b>	<b>3,964</b>	<b>(261)</b>	<b>11,338</b>

See Note 25: 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 2023

## 19. Derivative financial instruments (continued)

Company	Fair value 2023 £m	Fair value 2022 £m
<b>Non-hedge accounted derivatives liabilities</b>		
Forward foreign exchange contracts	-	(1)
Embedded derivative in inter-company borrowings	(139)	(251)
	(139)	(252)
Included in current liabilities	(139)	(252)
Included in non-current liabilities	-	-
<b>Derivative financial instrument liabilities</b>	<b>(139)</b>	<b>(252)</b>

See Note 25: Funding and financial risk management for further details on the risk management strategy.

## 20. Provisions

Group and company	Restructuring £m	Legal £m	Other £m	Total £m
<b>At 1 April 2022</b>	-	24	54	78
Charge the year	2	-	15	17
Utilised in the year	-	(4)	(3)	(7)
Release for the year	-	(4)	(16)	(20)
<b>At 31 March 2023</b>	<b>2</b>	<b>16</b>	<b>50</b>	<b>68</b>

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 general nature of contingent liabilities are development indemnities and warranties.

# Notes to the financial statements

for the year ended 31 March 2023

## 21. 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
<b>At 31 March 2021</b>	<b>3,145</b>	-	<b>374</b>	<b>(149)</b>	<b>(25)</b>	-	<b>3,345</b>
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	-	-	-
De-recognition of deferred tax asset (income)	-	(8)	-	-	-	25	17
De-recognition of deferred tax asset (equity)	-	-	-	-	(22)	-	(22)
<b>At 31 March 2022</b>	<b>4,375</b>	-	<b>945</b>	<b>(41)</b>	<b>1</b>	-	<b>5,280</b>
Charge/(credit) to income	(398)	3	-	(50)	-	1	(444)
Charge/(credit) to other comprehensive income	-	-	1,201	582	21	-	1,804
Transfer between reserves	-	-	(29)	29	-	-	-
Derecognition of deferred tax asset (income)	-	(3)	-	-	-	(1)	(4)
De-recognition of deferred tax asset (equity)	-	-	-	-	(21)	-	(21)
<b>At 31 March 2023</b>	<b>3,977</b>	-	<b>2,117</b>	<b>520</b>	<b>1</b>	-	<b>6,615</b>



# Notes to the financial statements

for the year ended 31 March 2023

## 21. Deferred tax (continued)

Company	Accelerated investment tax depreciation	Unrealised gain on property	Revaluation of railway network	Short term timing differences including retirement benefit obligations	Derivatives	Tax losses	Total
	£m	£m	£m	£m	£m	£m	£m
<b>At 31 March 2021</b>	<b>3,143</b>	-	<b>375</b>	<b>(150)</b>	-	-	<b>3,368</b>
(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	-	-	-
De-recognition of impact on rate change (equity)	-	-	-	-	1	-	1
De-recognition of deferred tax asset (income)	-	(8)	-	-	-	25	17
De-recognition of deferred tax asset (equity)	-	-	-	-	(6)	-	(6)
<b>At 31 March 2022</b>	<b>4,361</b>	-	<b>946</b>	<b>(41)</b>	-	-	<b>5,266</b>
(Credit)/charge to income	(395)	3	-	(50)	-	1	(441)
(Credit)/charge to other comprehensive income	-	-	1,201	582	-	-	1,783
Transfer between reserves	-	-	(29)	29	-	-	-
De-recognition of deferred tax asset (income)	-	(3)	-	-	-	(1)	(4)
<b>At 31 March 2023</b>	<b>3,966</b>	-	<b>2,118</b>	<b>520</b>	-	-	<b>6,604</b>

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

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
Deferred tax liabilities	6,615	5,321	6,604	5,307
Deferred tax assets	-	(41)	-	(41)
	<b>6,615</b>	<b>5,280</b>	<b>6,604</b>	<b>5,266</b>

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 10 includes further discussion around the recognition of deferred tax assets. The deferred tax asset on tax losses of £2,297m (2022: £2,305m) has therefore not been recognised.

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.

## Notes to the financial statements

for the year ended 31 March 2023

### 22. Share capital

Company	2023 £m	2022 £m
<b>Authorised:</b>		
50,200,000 ordinary shares of 0.1p each	-	-
500,000,000 redeemable shares of £1 each	500	500
	<b>500</b>	<b>500</b>
<b>Issued and fully paid:</b>		
50,084,937 ordinary shares of 0.1p each	-	-
160,000,000 redeemable shares of £1 each	160	160
	<b>160</b>	<b>160</b>

The company has the option to repurchase any or all of the redeemable shares at any date after 31 March 2003. No premium is repayable on such redemption and the option to repurchase has no expiry date. The redeemable shareholders have no right to redemption at their instigation.

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

	2023 Group £m	2022 Group £m	2023 Company £m	2022 Company £m
(Loss)/profit before tax	(1,181)	317	(1,130)	211
Adjustments for:				
Property revaluation movements and profits on disposal	11	(51)	(2)	(57)
Fair value gains on derivatives and debt	(92)	(157)	(96)	6
Net interest expense	4,195	2,843	4,123	2,768
Depreciation of the rail network and leases under IFRS 16	2,405	2,198	2,405	2,198
Amortisation of capital grants	(298)	(240)	(298)	(240)
Amortisation of intangible assets	1	1	-	-
Movement in retirement benefit obligations	226	266	226	266
Decrease in provisions	(10)	(17)	(10)	(17)
<b>Operating cash flow before movements in working capital</b>	<b>5,257</b>	<b>5,160</b>	<b>5,218</b>	<b>5,135</b>
Increase in inventories	(50)	(13)	(50)	(13)
(Increase)/Decrease in receivables	(97)	(75)	(123)	(71)
Increase in payables	307	206	333	194
<b>Cash generated from operations</b>	<b>5,417</b>	<b>5,278</b>	<b>5,378</b>	<b>5,245</b>

#### 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 £384m (excluding offsetting clearing accounts) of short-term deposits with the government banking scheme ("GBS") held as at 31 March 2023 (2022: £558m).

## Notes to the financial statements

for the year ended 31 March 2023

### 24. 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.

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

	Property leases	Non property leases	Total
Group and company	£m	£m	£m
<b>Balance at 1 April 2021</b>	205	181	386
New leases entered into in the period	28	89	117
Change in assumptions	29	10	39
Interest charged in the period	5	6	11
Payments in the period	(48)	(85)	(133)
<b>Balance at 1 April 2022</b>	219	201	420
New leases entered into in the period	14	50	64
Change in assumptions	11	39	50
Interest charged in the period	5	8	13
Payments in the period	(45)	(95)	(140)
<b>Lease liabilities at 31 March 2023</b>	<b>204</b>	<b>203</b>	<b>407</b>
The lease liabilities are split between the current and non-current liabilities as shown below:		<b>2023</b>	<b>2022</b>
		£m	£m
Current lease liabilities		<b>123</b>	130
Non-current lease liabilities		<b>284</b>	290
<b>Total lease liabilities</b>		<b>407</b>	420

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

	Property leases	Non property leases	Total
Group and company	£m	£m	£m
<b>Balance at 1 April 2021</b>	205	177	382
New leases entered into in the period	28	89	117
Change in assumptions	28	2	30
Depreciation charged in the period	(45)	(60)	(105)
<b>Balance at 1 April 2022</b>	216	208	424
New leases entered into in the period	14	50	64
Change in assumptions	11	36	47
Depreciation charged in the period	(41)	(86)	(127)
<b>Right of use asset at 31 March 2023</b>	<b>200</b>	<b>208</b>	<b>408</b>

Expenses relating to short-term lease (included in net operating costs) were £nil (2022: £0.2m.) The total cash outflow for leases during the year was £140m (2022: £133m.)

## Notes to the financial statements

## Network Rail Infrastructure Limited

for the year ended 31 March 2023

**24. Leases (continued)**

As at 31 March 2023, the total ROU assets for the company were £408m (2022: £424m) and depreciation of ROU assets of £127m (2022: £105m).

The following table details the group's remaining contractual maturity for its financial liabilities. See Note 25 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	123	81	123	137	464

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	492	387	784	1,745	3,408

## Notes to the financial statements

for the year ended 31 March 2023

## 25. 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 £59.1bn borrowings, £28.3bn 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 which is rated AA by Standard and Poor's, Aa3 (outlook negative) by Moody's and AA- (outlook negative) by Fitch. The Debt Issuance Programme is supported by a financial indemnity from the Secretary of State for Transport which expires in 2052. The remaining £30.8bn 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 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 Debt Issuance Programme, including nominal and index-linked benchmarks and private placements in all currencies, will 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 the group 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 2023 and 2022.

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 2023

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

Group	2023 Carrying value £m	Fair value £m	2022 Carrying value £m	Fair value £m
<b>Financial assets</b>				
Cash and cash equivalents	303	303	477	477
Other non-derivative financial assets				
Trade and other receivables (less prepayments and accrued income and other taxation and social security)	1,111	1,111	981	981
Collateral receivable	141	141	255	255
<b>Derivatives</b>				
Other derivatives as fair value through profit and loss	93	93	13	13
<b>Total financial assets</b>	<b>1,648</b>	<b>1,648</b>	<b>1,726</b>	<b>1,726</b>
<b>Financial liabilities</b>				
Financial liabilities held at amortised cost				
Bank loans	(608)	(752)	(542)	(912)
Bonds issued under the Debt Issuance Programme	(27,598)	(30,172)	(24,823)	(39,473)
Borrowings issued by Department for Transport	(30,836)	(29,308)	(30,941)	(30,342)
Collateral payable	(2)	(2)	-	-
Trade and other payables at amortised cost (less deferred income)	(2,892)	(2,892)	(2,543)	(2,543)
Financial liabilities designated as fair value through profit and loss				
Bonds issued under the Debt Issuance Programme	(51)	(51)	(57)	(57)
<b>Derivatives</b>				
Other derivatives as fair value through profit and loss	(231)	(231)	(261)	(261)
<b>Total financial liabilities</b>	<b>(62,218)</b>	<b>(63,408)</b>	<b>(59,167)</b>	<b>(73,588)</b>

The bonds issued under the Debt Issuance programme are all level 2. 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 18) 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.

## Notes to the financial statements

for the year ended 31 March 2023

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

Company	2023 Carrying value £m	Fair value £m	2022 Carrying Value £m	Fair Value £m
<b>Financial Assets</b>				
Cash and cash equivalents	-	-	161	161
Other non-derivative financial assets				
Trade and other receivables (less prepayments and accrued income and other taxation and social security)	1,106	1,106	948	948
Derivatives				
Other derivatives	1	1	-	-
<b>Total financial assets</b>	<b>1,107</b>	<b>1,107</b>	<b>1,109</b>	<b>1,109</b>
<b>Financial Liabilities</b>				
Financial liabilities held at amortised cost				
Bank loans and overdrafts	-	-	-	-
Loans from subsidiaries	(28,295)	(30,944)	(25,304)	(40,560)
Department for Transport borrowings	(30,836)	(29,308)	(30,941)	(30,342)
<b>Total borrowings</b>	<b>(59,131)</b>	<b>(60,252)</b>	<b>(56,245)</b>	<b>(70,902)</b>
Trade and other payables	(2,832)	(2,832)	(2,481)	(2,481)
Derivatives				
Embedded derivatives in inter-company borrowing	(139)	(139)	(251)	(251)
Other derivatives	-	-	(1)	(1)
<b>Total derivatives</b>	<b>(139)</b>	<b>(139)</b>	<b>(252)</b>	<b>(252)</b>
<b>Total financial liabilities</b>	<b>(62,102)</b>	<b>(63,223)</b>	<b>(58,978)</b>	<b>(73,635)</b>

#### 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

# Notes to the financial statements

for the year ended 31 March 2023

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

can be assigned to each of the counterparties. Surplus liquidity is invested in the Government Banking Scheme which has low credit risk.

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 £7m (2022: £nil) 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 2023 the fair value of collateral held was £2m (2022: £nil). 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 2023 was £141m (2022: £255m).

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 16 (Trade and other receivables) and 17 (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 nominal value of £7,810m (2022: £13,320m) 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.

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 2023

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

Group and company	31 March 2023 Impact on the income statement £m	31 March 2022 Impact on the income statement £m
1% increase in the interest rate.	100	196
1% increase in the GBP RPI on index linked bonds	(214)	(195)

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 18 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 2023

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

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
<b>31 March 2023</b>					
<b>Non-derivative financial liabilities</b>					
Bank loans and overdrafts	(8)	(8)	(23)	(720)	(759)
Bonds issued under the Debt Issuance Programme					
– Sterling denominated bonds	(1,300)	(102)	(307)	(2,864)	(4,573)
– Sterling denominated index-linked bonds	(335)	(335)	(8,259)	(20,012)	(28,941)
– Foreign currency denominated bonds	(2)	(2)	(54)	-	(58)
Loan from the Department for Transport	(3,410)	(16,222)	(12,719)	-	(32,351)
Trade and other payables	(1,836)	(28)	-	-	(1,864)
<b>Derivative financial liabilities</b>					
Net settled derivative contracts	(68)	(41)	(32)	-	(141)
Gross settled derivative contracts – receipts	29	29	57	-	115
Gross settled derivative contracts – payments	-	-	-	-	-
	<b>(6,930)</b>	<b>(16,709)</b>	<b>(21,337)</b>	<b>(23,596)</b>	<b>(68,572)</b>

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
<b>31 March 2022</b>					
<b>Non-derivative financial liabilities</b>					
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)
<b>Derivative financial liabilities</b>					
Net settled derivative contracts	(120)	(67)	(69)	(4)	(260)
Gross settled derivative contracts – receipts	29	29	88	-	146
Gross settled derivative contracts – payments	-	-	-	-	-
	<b>(5,327)</b>	<b>(4,945)</b>	<b>(27,332)</b>	<b>(27,704)</b>	<b>(65,308)</b>

# Notes to the financial statements

for the year ended 31 March 2023

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

Company 31 March 2023	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
<b>Non-derivative financial liabilities</b>					
Inter-company loan	(1,645)	(447)	(8,643)	(23,596)	(34,331)
Trade and other payables	(1,787)	(28)	-	-	(1,815)
Department for Transport borrowings	(3,410)	(16,222)	(12,719)	-	(32,351)
<b>Derivative financial liabilities</b>					
Embedded derivative	(139)	-	-	-	(139)
Other derivatives	-	-	-	-	-
	(6,981)	(16,697)	(21,362)	(23,596)	(68,636)
<b>Company 31 March 2022</b>	<b>Within 1 year £m</b>	<b>1-2 years £m</b>	<b>2-5 years £m</b>	<b>5+ years £m</b>	<b>Total £m</b>
<b>Non-derivative financial liabilities</b>					
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)
<b>Derivative financial liabilities</b>					
Embedded derivative	(251)	-	-	-	(251)
Other derivatives	(1)	-	-	-	(1)
	(5,443)	(4,903)	(27,351)	(27,700)	(65,397)

### 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.

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 instrument s £m	Cash collateral received £m	Net amount £m
<b>31 March 2023</b>						
Derivative financial assets	93	-	93	(90)	17	20
<b>31 March 2022</b>						
Derivative financial assets	13	-	13	(13)	95	95

## Notes to the financial statements

for the year ended 31 March 2023

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

Company	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
	£m	£m	£m	£m	£m	£m
<b>31 March 2023</b>						
Derivative financial assets	1	-	1	(1)	1	1
<b>31 March 2022</b>						
Derivative financial assets	-	-	-	-	-	-

#### 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.

Group	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
				Financial instruments	Cash collateral paid	
	£m	£m	£m	£m	£m	£m
<b>31 March 2023</b>	(231)	-	(231)	90	122	(19)
Derivative financial liabilities						
<b>31 March 2022</b>						
Derivative financial liabilities	(261)	-	(261)	12	160	(89)

# Notes to the financial statements

for the year ended 31 March 2023

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

Company	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the balance sheet £m	Net amount of financial liabilities presented in the balance sheet £m	Related amounts not set off in the balance sheet		Net amount £m
				Financial instruments £m	Cash collateral paid £m	
<b>Financial liabilities</b>						
<b>31 March 2023</b>						
Derivative financial liabilities	(139)	-	(139)	-	-	(139)
<b>31 March 2022</b>						
Derivative financial liabilities	(252)	-	(252)	-	-	(252)

### Borrowings

Details of the group's undrawn committed facilities and types of debt instrument used can be found in Note 18.

### 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).

Group	2023			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Derivative financial assets	-	93	-	93
<b>Assets</b>	-	<b>93</b>	-	<b>93</b>
Derivative financial liabilities	-	(231)	-	(231)
Financial liabilities designated at fair value through profit and loss	-	(51)	-	(51)
<b>Liabilities</b>	-	<b>(282)</b>	-	<b>(282)</b>
<b>Total</b>	-	<b>(189)</b>	-	<b>(189)</b>

## Notes to the financial statements

for the year ended 31 March 2023

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

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

Company 31 March 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets	-	1	-	1
<b>Assets</b>	-	<b>1</b>	-	<b>1</b>
Derivative financial liabilities	-	(139)	-	(139)
<b>Liabilities</b>	-	<b>(139)</b>	-	<b>(139)</b>
<b>Total</b>	-	<b>(138)</b>	-	<b>(138)</b>

<b>31 March 2022</b>				
Derivative financial assets	-	-	-	-
<b>Assets</b>	-	-	-	-
Derivative financial liabilities	-	(252)	-	(252)
Financial liabilities	-	(252)	-	(252)
<b>Total</b>	-	<b>(252)</b>	-	<b>(252)</b>

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.

# Notes to the financial statements

for the year ended 31 March 2023

## 26. 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 12,122 members (2022: 12,960) and the average employer contribution rate in the year was 3 per cent (2022: 4 per cent).

The estimated amounts of contributions expected to be paid by the company to the schemes during the year ended 31 March 2024 are £130m and 83m respectively.

### Defined benefit schemes

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

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

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

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

Qualified actuaries Willis Towers Watson have valued the schemes on an IAS 19 (revised) basis at 31 March 2023 and 31 March 2022.

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.

## Notes to the financial statements

for the year ended 31 March 2023

### 26. Retirement benefit schemes (continued)

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.

	2023 %	2022 %
<i>Key assumptions used:</i>		
Discount rate	4.8	2.7
Expected rate of price inflation and CARE benefit increases (RPI measure)	3.3	3.6
Future earnings increase *		
- after changes to benefits from 1 April 2016	3.3	3.6
Pension increases (CPI measure)	2.9	3.2

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

	2023		2022	
	Males	Females	Males	Females
Average life expectancy mortality tables used to determine defined benefit obligations:				
- Member aged 65	20.8	22.8	21	23
- Member aged 45	22.4	24.6	22.7	24.9

For Network Rail Section of the RPS the discounted mean term of the defined benefit obligation is 18 years, for the CARE scheme it is 29 years.

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

	2023 £m	2022 £m
Current service cost – defined contribution (see note 6)	27	24
Current service cost – defined benefit (see note 6)	324	379
Interest cost	60	60
	411	463

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:

	2023 £m	2022 £m
Loss/(Gain) on defined benefit obligation due to experience	572	(224)
Gain on defined benefit obligation due to assumption changes	(3,346)	(438)
Return on plan assets (greater) / less than discounts rate	444	(304)
Actuarial (gain)/loss recognised in the statement of comprehensive income	(2,330)	(966)



# Notes to the financial statements

for the year ended 31 March 2023

## 26. Retirement benefit schemes (continued)

The cumulative amount of actuarial gains recognised in other comprehensive income was £2,762m (2022: £432m). In the year the discount rate increased by 210 bps and the RPI assumption decreased by 30 bps. These factors combined have had a significant impact on the defined benefit obligation leading to the £3,346m gain noted above arising from assumption changes. The other movements decrease that gain to £2,330m which is recorded in the statement of comprehensive income.

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

	2023 £m	2022 £m
The defined benefit obligation is made up as follows:		
Active members	(5,478)	(7,664)
Deferred pensioner members	(1,134)	(1,716)
Retired members	(2,336)	(3,560)
Present value of defined benefit obligation	(8,948)	(12,940)
Fair value of scheme assets	8,590	9,175
Deficit in the scheme	(358)	(3,765)
Company's share (60%) of the scheme deficit recognised in the balance sheet	(215)	(2,259)

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

# Notes to the financial statements

for the year ended 31 March 2023

## 26. Retirement benefit schemes (continued)

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

	Assets*	Liabilities**	Deficit
	£m	£m	£m
<b>At 1 April 2021</b>	<b>8,537</b>	<b>(13,370)</b>	<b>(4,833)</b>
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	-
<b>At 1 April 2022</b>	<b>9,175</b>	<b>(12,940)</b>	<b>(3,765)</b>
Current service cost including members' share	-	(568)	(568)
Interest on pension deficit	246	(346)	(100)
Section amendment (Past Service Cost)	-	-	-
Administration expenses	(21)	-	(21)
Return on plan assets greater than the discount rate	(742)	-	(742)
Actuarial gain arising from experience adjustments	-	(947)	(947)
Actuarial loss arising from demographic assumptions	-	208	208
Gain on DBO – financial assumption	-	5,371	5,371
Regular contributions by employer	125	-	125
Contributions by employees	81	-	81
Benefits paid	(274)	274	-
<b>At 31 March 2023</b>	<b>8,590</b>	<b>(8,948)</b>	<b>(358)</b>

\*Including CARE scheme assets at 31 March 2023 of £240m (2022: £393m)

\*\*Including CARE scheme liabilities at 31 March 2023 of £541m (2022: £959m)

The actual return on scheme assets was £496m (2022: £686m).

# Notes to the financial statements

for the year ended 31 March 2023

## 26. Retirement benefit schemes (continued)

### Scheme assets

The following table shows the assets split according to the IFRS 13 Fair Value hierarchy:

	Level 1 £m	2023 Level 2 £m	Level 3 £m	Total £m
<b>31 March 2023</b>				
Total assets RPS Scheme	5,184	196	2,970	8,350
Total assets CARE scheme	123	86	31	240
<b>Total scheme assets</b>	<b>5,307</b>	<b>282</b>	<b>3,001</b>	<b>8,590</b>
<b>31 March 2022</b>				
Total assets RPS scheme	5,556	411	2,815	8,782
Total assets CARE scheme				393
<b>Total scheme assets</b>				<b>9,175</b>

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:

#### Asset volatility

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

#### Change in bond yields

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

#### Inflation risk

The majority of the scheme's DBO is linked to inflation where higher inflation will lead to higher value being placed on the DBO. Some of the scheme assets are either unaffected by inflation or loosely correlated with inflation (e.g., growth assets), meaning that an increase in inflation will generally increase the deficit. 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 19 years. The rate is then adjusted downwards to reflect 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 2023 and 2022. The difference between RPI and CPI(H) is 40bps (2022:40bps).

#### Life expectancy

Future mortality rates cannot be predicted with certainty. An increase in life expectancy will lead to an increase in the scheme's defined benefit obligations, whilst a decrease in life expectancy will decrease those obligations. In the year-ended 31 March 2023 life expectancy assumptions have been reduced slightly in line with emerging long-term forecasts and trends. These changes are in line with those proposed for use in the pension schemes ongoing triennial valuation.

#### 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.

## Notes to the financial statements

for the year ended 31 March 2023

### 26. Retirement benefit schemes (continued)

#### 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	275
Benefits expected to be paid between 2 to 3 years	553
Benefits expected to be paid between 4 to 6 years	954
Benefits expected to be paid between 7 to 10 years	1,519
Benefits expected to be paid between 11 to 15 years	2,239
Benefits expected to be paid in over 15 years	14,122

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

	2023 £m	2022 £m
<b>Discount rate</b>		
Change in defined benefit obligation at year end from a 25-basis point increase	(379)	(683)
Change in defined benefit obligation at year end from a 25-basis point decrease	404	737
<b>Mortality</b>		
Change in defined benefit obligation from a one-year increase in longevity	349	504
Change in defined benefit obligation from a one-year decrease in longevity	(350)	(501)
<b>Earnings increases</b>		
Change in defined benefit obligation at year end from a 25-basis point increase	113	204
Change in defined benefit obligation at year end from a 25-basis point decrease	(110)	(197)
<b>Price inflation (CPI measure) *</b>		
Change in defined benefit obligation at year end from a 50-basis point increase	571	981
Change in defined benefit obligation at year end from a 50-basis point decrease	(541)	(908)

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

### 27. Related parties

	2023 £m	2022 £m
<b>Loans to subsidiaries of the company</b>		
Network Rail Development Limited	36	38
Network Rail Consulting Limited	2	7
Network Rail (VY1) Limited	6	6
Network Rail (VY2) Limited	13	13
<b>Total</b>	<b>57</b>	<b>64</b>

# Notes to the financial statements

for the year ended 31 March 2023

## 27. Related parties (continued)

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

	2023 £m	2022 £m
Intercompany loans	(28,295)	(25,304)

The Department for Transport (DfT) and Transport Scotland (TS) are considered related parties of NRIL. NRIL received grant income of £7,038m from the DfT in the year ended 31 March 2023 (2022: £5,988m). NRIL received grant income of £477m from TS in the year ended 31 March 2023 (2022: £525m). On 31 March 2023 the company held £30,836m of loans issued by DfT (2022: £30,941m).

Great British Railways Transition Team Limited (GBRTT) is a related party of NRIL through common directors appointed on the boards of both companies, although GBRTT does not form a part of NRIL's group of companies. At the end of the year transactions between NRIL and GBRTT amounted to £34m.

The British Transport Police (BTP), with whom Network Rail has a Police Service Agreement is also a related party. Network Rail incurred £109m (2022: £97m) of costs relating to services provided by the BTP in the year ending 31 March 2023 and received £1m (2022: £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 £115m (2022: £165m) of capital work in progress relating to works on HS2 and had also received £196m (2022: £199m) 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 2023, NRIL received income of £1.0m (2022: £0.3m) from EWR for the provision of feasibility studies and development activities services.

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 2023 £398m (2022: £507m) for services rendered was received from DfT OLR Holdings Limited. Capital project funding paid; net of capital costs amounted to £11m (2022: £5m). At year-end balances with DfT OLR Holdings Limited included payables of £16m (2022: £11m) and receivables of £13m (2022: £13m).

### 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 Waterloo General Office, London, SE1 8SW.

## 28. Post balance sheet events

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