Network Rail Infrastructure Finance PLC

Annual Report and Accounts

Year ended 31 March 2020

Company registration number 5090412

Contents

Officers and professional advisers

Directors

Paul Marshall
Helena Whitaker
Clifford Pearce
Douglas Armour

Company secretary

NR Corporate Secretary Limited

Registered office

1 Eversholt Street
London
NW1 2DN
United Kingdom

Independent auditor

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Strategic report

The directors present their strategic report of Network Rail Infrastructure Finance PLC ("NRIF" or "the company") for the year ended 31 March 2020.

Business review

NRIF was incorporated on 31 March 2004 and entered into documentation to facilitate debt issuance on 29 October 2004.

As of 4 July 2014 Network Rail's funding requirement has been met by the Department for Transport ("DfT") via a loan facility and grants to Network Rail Infrastructure Limited ("NRIL") the owner and operator of the national rail network of Great Britain. As a result, NRIF continues to operate as the administrator of existing debt issues and derivatives under the Debt Issuance Programme ("DIP"), but will not be issuing new debt for the foreseeable future. Existing debt, derivatives and related interest payments within NRIF are reimbursed by NRIL in the form of an intercompany loan.

The company was incorporated for the sole purpose of acting as the issuer under Network Rail's DIP and legally is not a member of the Network Rail group. However, for accounting purposes the company is treated as a subsidiary in the consolidated accounts of Network Rail Limited ("NRL"). The DIP is guaranteed by a financial indemnity from the Secretary of State for Transport and as a result the financial indemnity is a direct sovereign obligation of the Crown.

The financial indemnity is an unconditional and irrevocable obligation of the UK Government to make payments directly to a security trustee to cover all debt service shortfalls, whatever the cause. The financial indemnity is also designed to ensure timely payment as well as ultimate recourse to the UK Government.

Within the DIP, which is administered by NRIL, is a £40,000m multi-currency note programme which has been assigned the following credit ratings: AA by Standard and Poor's, Aa2 (outlook stable) by Moody's and AA (negative watch) by Fitch.

Financial review

During the year the company incurred finance costs of £1,189m (2018/19: £1,187m) relating to the interest on bonds in issue. These costs were passed onto NRIL in the form of finance income for NRIF. NRIF also made a loss of £862m on the fair value of its debt as it continues to fair value its debt under IFRS 9. This loss arose as a result of increases in the fair value of debt which in turn is driven by market sentiment on interest rates and risk, including in the last quarter in relation to the coronavirus pandemic. NRIF made a gain of £231m on its derivatives. These gains and losses were passed through to NRIL as part of the intercompany loan receivable. NRIF made a profit before tax of £110,000 (2019: £110,000) in the year ended 31 March 2020, being the excess of the fee charged to NRIL for the provision of the facility over the fee charged by NRIL for the administration of the facility. On wind up of the company all shares and distributable reserves in the company are held for charitable purposes.

Strategic report (continued)

Financial review (continued)

On a fair value basis, net borrowings as described in note 10 have increased from £29,968m to £31,105m, primarily reflecting fair value movements and the fact that no instruments fell due for repayment during 2019-20.

During the year ending 31 March 2020, no bonds matured under the DIP. UK RPI index-linked debt was 80 per cent of gross debt at 31 March 2020.

There was no commercial paper outstanding as at 31 March 2020 (2019:£nil).

Cash balances are required for settlement of maturing bonds and for the purposes of managing collateral posted by financial derivative counterparties. These cash requirements are met by NRIL through repayment of the intercompany loan.

Counterparty limits are set with reference to published credit ratings. These limits dictate how much and for how long management deals with each counterparty, and are monitored on a regular basis (further details are provided in note 12).

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 was a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10).

As part of Network Rail's formal reclassification to the public sector, an arrangement was agreed whereby funding would be provided by the DfT in the form of a loan made directly to NRIL. As a result, from 4 July 2014, Network Rail borrows directly from the UK Government and currently has no plans to issue debt in its own name through NRIF.

In the unlikely event that the DfT withdraws or breaches its obligations on the loan facility to NRIL, NRIF may issue further bonds or commercial paper. NRIF's future debt service obligations will be met through repayments of the intercompany loan by NRIL.

All of the outstanding bonds under the DIP, including nominal and index-linked benchmarks and private placements in all currencies, will continue to benefit from a direct and explicit guarantee from the UK Government under the financial indemnity.

Strategic report (continued)

Treasury operations

The treasury operations of NRIL, who administers the programme on behalf of NRIF, are co-ordinated and managed in accordance with policies and procedures approved by the Treasury Committee, being a full sub-committee of the Network Rail board. Treasury operations are subject to internal audits and committee reviews and the company does not engage in trades of a speculative nature.

Liquidity is provided by monitoring that NRIL has sufficient funds to meet its obligations to NRIF. NRIL are able to vary drawdowns under the DfT loan agreement in order to maintain liquidity.

The major financing risks that the company faces are interest rate risk, foreign currency fluctuation risk and liquidity risk. Treasury operations seek to provide sufficient liquidity to meet the company's needs, while reducing financial risks and managing interest receivable on surplus cash (further details are provided in note 12).

The company has certain debt issuances which are index-linked and thus exposed to movements in inflation rates. The company does not enter into any derivative arrangements to hedge these.

The credit risk with regard to all classes of derivative financial instruments is limited because both Network Rail and its counterparties are required to post cash collateral on their full adverse net derivative positions. The collateral agreements do not contain threshold provisions.

NRIF will continue in operation to manage the existing bond portfolio. The bond portfolio is expected to be held to maturity and as such while market sentiment will drive changes in fair value, the impact on fair value of the portfolio held is not considered to be a major financing risk. NRIF does not anticipate entering into any new derivative contracts in the future and existing derivatives are currently being fully utilised. Substantially all of the derivatives will have matured by the 31 March 2024.

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

Paul Marshall (director)
16 July 2020

Directors' report

The directors present their report and the annual financial statements of the company for the year ended 31 March 2020.

Principal activities

The principal activity of NRIF is to act as issuer for Network Rail's DIP.

Dividends

No dividend was paid or proposed in the current year (2019: £nil).

Directors

The directors who served during the year, and up to the date of signing the financial statements are disclosed on page 1 of this annual report.

NRIF maintains directors' and officers' liability insurance for its directors with a cover limit of £150 million for each claim or series of claims against them in their capacity as directors of the company. The company also indemnifies its directors and officers to the extent permitted by law.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

In reaching this conclusion the directors considered: the Financial Indemnity as described on page 2; the collateral arrangements with banking counterparties as described in note 12 of the financial statements; and that the company has an intercompany agreement that recovers all net costs from NRIL.

The loan arrangement agreed between DfT and NRIL has resulted in loans being made by DfT direct to NRIL. NRIF does not anticipate issuing further bonds and NRIF's debt service obligations will continue to be met through repayments of the intercompany loan by NRIL.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors' report (continued)

Corporate Governance

All of NRIF's activities are administered by NRIL's employees and therefore the company does not have any employees. NRIF relies on the governance structures of its effective controlling party Network Rail Limited (NRL), including its audit and risk committee. The role of these governance structures is scoped to include NRIF's activities in full. As permitted by DTR rule 1B.1.6, since it has not issued shares which are admitted to trading, NRIF does not itself apply a corporate governance code. However, it is subject to an appropriate degree of control and accountability as a result of NRL applying the UK Corporate Governance Code, subject to a small number of exceptions as disclosed in its accounts. The principal exception to Code compliance at NRL is that due to the public sector reclassification of the Network Rail group as a whole, the Department for Transport expects (as described in Network Rail's Framework Agreement) the Comptroller and Auditor General to be appointed as independent auditor for Network Rail and its key subsidiaries, including NRIF. NRL's annual reports and accounts consolidate NRIF's financial results; describe the governance structures for NRL, to which NRIF is also subject, and the activity of its audit and risk committee; and describe Code compliance for the group as a whole. These reports are available at http://www.networkrail.co.uk.

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

Paul Marshall (director)
16 July 2020

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial 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 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 auditor is 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 auditor is aware of that information.

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.

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

Paul Marshall (director)
16 July 2020

Independent auditor report

to the Members of Network Rail Infrastructure Finance PLC

Opinion on financial statements

I have audited the financial statements of Network Rail Infrastructure Finance Plc (NRIF) for the year ended 31 March 2020 which comprise the comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of the company's result for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects 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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- Network Rail Infrastructure Finance Plc's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- Network Rail Infrastructure Finance Plc has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis.

Basis of opinions

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

Independent auditor report (continued)

to the Members of Network Rail Infrastructure Finance PLC

The regularity framework described in the table below has been applied:

Regularity Framework	
Authorities for a company	Companies Act 2006 / Articles of Association
Operating requirements	Network Licence
HM Treasury and related authorities	Managing Public Money

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed risk of management override of controls.

The areas of focus were discussed with the Network Rail Group Audit and Risk Committee.

In this year's report the following changes to the risks identified have been made compared to my prior year report:

- removal of the prior year significant risk around the implementation and first-time adoption of IFRS 9; and
- removal of the prior year significant risk around the implementation of the Oracle IT upgrade.

Independent auditor report (continued)

to the Members of Network Rail Infrastructure Finance PLC

Key audit matter – Valuation of bonds

Description of risk

The company holds a portfolio of bonds issued under the Debt Issuance Programme. These instruments are recognised in the company's Balance Sheet at their fair value. At 31 March 2020 the company recognised a liability of £31,519 million in respect of these instruments (31 March 2019: £30,657 million).

The company measures the value of the instruments using its own model and third-party valuations of prices and interest rates.

Whilst I considered the valuation of the bond portfolio to be a key audit matter, on the basis it is the area that has the largest impact on NRIF's accounts, I did not consider it to represent an area of significant risk of material misstatement for my audit as it does not involve significant levels of judgement.

How the scope of my audit responded to the risk

I re-calculated the full year-end valuation, including any interest costs, using market prices obtained from third parties and, for the index-linked bonds, using the RPI rate published by the Office for National Statistics.

For all publicly placed bonds (around 96.5% of the population) I also evaluated the appropriateness of the output of third party valuations through a detailed review of movements; an assessment of the appropriateness of the third-party data source and published methodology; a comparison of trends in the bonds with the most valuable holdings to separate third-party valuation estimates on similar gilts; and a detailed review of the impact of reference gilt based adjustments against indicative and executory activity in the market. For privately placed bonds, I performed a predictive analytical procedure based on valuations of comparator instruments from the wider market to determine an expected value, which I compared against the third-party estimates obtained by management.

Key observations

In the course of completing this work I did not identify any material misstatements in the fair values of the bonds recognised, and disclosed, in the financial.

Independent auditor report (continued)

to the Members of Network Rail Infrastructure Finance PLC

Key audit matter – Valuation of the derivative financial instrument portfolio

Description of risk

The company holds a portfolio of derivative financial instruments to mitigate interest rate risk and currency risk on bonds in issue under the legacy Debt Issuance Programme and borrowings from the Department for Transport. These instruments are recognised in the company's Balance Sheet at their fair value. At 31 March 2020 the company recognised a net liability of £413 million in respect of these instruments (31 March 2019: £681 million net liability).

The company measures the value of the instruments excluding any accruing interest using third-party market data and performs its own calculation of the accrued interest valuation and gains/losses in year.

Whilst I considered the valuation of derivatives financial instruments to be a key audit matter, on the basis it is the area that had the greatest effect on my overall audit strategy apart from the bonds above, I did not consider it to represent an area of significant risk of material misstatement for my audit as it does not involve significant levels of judgement.

How the scope of my audit responded to the risk

I performed testing on a sample of 36 of the instruments held. For each instrument selected, I obtained the deal information from Network Rail Infrastructure Finance Plc and used this to obtain valuations from market trading platforms. I used this as a point of comparison against which I assessed the reasonableness of management's valuation of the derivatives' year-end positions, related interest costs and gains/losses in the year.

I also compared the derivative listing to those held with counterparties included in the year-end collateral reconciliation, which was checked to counterparty statements. This gave me additional assurance over the completeness of derivative financial instruments.

Key observations

In the course of completing this work, I did not identify any material misstatements in the fair values of instruments recognised, and disclosed, in the financial statements.

Independent auditor report (continued)

to the Members of Network Rail Infrastructure Finance PLC

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the company's financial statements at £100 million. The company is a component of the Network Rail Limited Group which is separately audited by the Comptroller and Auditor General. Group materiality was set at £100 million for the audit of transactions and balances unconnected with the valuation of the railway network in the Network Rail Limited Group. As this value is lower than the materiality that would have otherwise been applied for Network Rail Infrastructure Finance Plc, I chose to apply this threshold for my materiality. If not applying this threshold, then I might have set materiality at between £150 and £300 million, based on 0.5% - 1.0% of total liabilities under the management of Network Rail Infrastructure Finance Plc.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Board that I would report to it all uncorrected misstatements identified through my audit in excess of £1 million, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

The total net unadjusted audit differences reported to the NRIF Board would have had nil impact on net assets if corrected.

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of director's responsibilities, the directors are responsible for:

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

Independent auditor report (continued)

to the Members of Network Rail Infrastructure Finance PLC

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor report (continued)

to the Members of Network Rail Infrastructure Finance PLC

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

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement.

I performed detailed testing on the borrowings and the derivative asset and liability valuations, as well as work on the intercompany loan arrangement with Network Rail Infrastructure Limited (NRIL). I checked that balances which form NRIF's net borrowings were transferred accurately and completely to NRIL through the intercompany loan. I also performed detailed testing on the balances included on the Statement of Comprehensive Income, by re-calculating the year-end position of the finance costs and losses related to bonds and performing substantive testing of the interest costs and gains from derivatives.

This work covered substantially all of NRIF's net assets and its income and expenditure. This gave me the evidence I needed for my opinion on the financial statements as a whole.

Other Information

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

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or

- Audit Committee reporting: the explanation as to why the annual report does not include a section describing the work of the Group Audit Committee is materially inconsistent with my knowledge obtained in the audit.

I also have nothing to report in this regard.

Independent auditor report (continued)

to the Members of Network Rail Infrastructure Finance PLC

Opinion on other matters prescribed by the Companies Act

The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

Matters on which I report by exception

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

I have nothing to report arising from this duty.

Independent auditor report (continued)

to the Members of Network Rail Infrastructure Finance PLC

Other matters which I am required to address

The Comptroller and Auditor General was appointed by Network Rail Infrastructure Finance Plc on 15 July 2015. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years.

No non-audit services prohibited by the FRC's Ethical Standard, as applicable for public interest entities, were provided to the company and I remain independent of the company in conducting my audit. I provided no other services, in addition to the audit, to the company.

My audit opinion is consistent with the additional report to the Board of Directors.

Matthew Kay

Senior Statutory Auditor

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

London, SW1W 9SP

20 July 2020

Statement of comprehensive income

for the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Result from operations		-	-
Finance income	5	1,189	1,187
Finance costs	5	(1,189)	(1,187)
Other gains and losses	6	-	-
Profit before taxation		-	-
Tax		-	-
Profit and total comprehensive income for the year		-	-

All income and expense is recognised in the statement of comprehensive income.

Statement of changes in equity

for the year ended 31 March 2020

	Share capital £m	Retained earnings £m	Total equity £m
At 31 March 2018	-	1	1
Profit and total comprehensive income for the year	-	-	-
At 31 March 2019	-	1	1
Profit and total comprehensive income for the year	-	-	-
At 31 March 2020	-	1	1

Balance sheet

at 31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Receivables: amounts falling due after more than one year	7	**30,506**	**30,650**
Derivative financial instruments	11	**472**	**340**
Total non-current assets		**30,978**	**30,990**
Current assets			
Derivative financial instruments	11	**10**	**10**
Receivables: amounts falling due within one year	7	**1,727**	**904**
Cash and cash equivalents	10	**-**	**-**
Total current assets		**1,737**	**914**
Total assets		**32,715**	**31,904**
Current liabilities			
Loans	9	**(1,013)**	**-**
Derivative financial instruments	11	**(48)**	**(51)**
Other payables	8	**(300)**	**(215)**
Total current liabilities		**(1,361)**	**(266)**
Net current assets		**376**	**648**
Non-current liabilities			
Loans	9	**(30,506)**	**(30,657)**
Derivative financial instruments	11	**(847)**	**(980)**
Total non-current liabilities		**(31,353)**	**(31,637)**
Total liabilities		**(32,714)**	**(31,903)**
Net assets		**1**	**1**
Equity			
Share capital	13	**-**	**-**
Retained earnings		**1**	**1**
Total equity		**1**	**1**

The financial statements and accompanying disclosure notes on pages 17 to 38 were approved by the board of directors on 16 July 2020 and authorised for issue on 21 July 2020. They were signed on its behalf by:

Paul Marshall (director) Helena Whitaker (director)

Company registration number: 5090412

Statement of cash flows

for the year ended at 31 March 2020

	Note	2020 £m	2019 £m
Cash flow from operating activities	14	**(275)**	**1,764**
Interest paid*		**(673)**	**(696)**
Net cash (outflow) / inflow from operating activities		**(948)**	**1,068**
Investing activities			
Interest received		**673**	**695**
Net cash inflow from investing activities		**673**	**695**
Financing activities			
Repayment of borrowings		**-**	**(1,738)**
Net collateral movement with counterparties		**275**	**(26)**
Cash settlement derivatives not hedge accounted		**-**	**-**
Net cash inflow / (outflow) from financing activities		**275**	**(1,764)**
Net increase/(decrease) in cash and cash equivalents		**-**	**(1)**
Cash and cash equivalents at beginning of the year		**-**	**1**
Cash and cash equivalents at end of the year		**-**	**-**

*Balance includes the net interest on derivative financial instruments

Notes to the Financial Statements

for the year ended 31 March 2020

1. General information

Network Rail Infrastructure Finance Plc ('the company') is a company incorporated in Great Britain and registered in England and Wales under the Companies Act 2006.

The company's registration number is 5090412.

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

The company's principal activities, details of the company's business activities and key events and changes during the year are contained within the strategic and directors' reports on pages 2 to 6.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with IFRS as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS.

The financial statements have been prepared under the fair value basis, as bank loans and bonds, financial assets and liabilities are carried at fair value, with the exception of interest which accrues on the nominal value of bonds in issue. The principal accounting policies have been applied consistently throughout the year.

The principal accounting policies are set out below.

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 2019.

Notes to the Financial Statements (continued)

2. Significant Accounting Policies (continued)

Expected credit losses

The company's exposure to credit risk is limited to the intercompany receivable balance from Network Rail Infrastructure Limited (NRIL) and Collateral placed with banking counterparties. All NRIF borrowings, related balances and risks are passed on to NRIL in line with the terms of the intercompany loan agreement between NRIF and NRIL. NRIF has historically not recognised any allowances for credit losses based on current credit risk, and, due to there not being any significant change or increase in credit risk, no future expected credit losses are recognised.

Operating segments

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the company that are regularly reviewed by the board to allocate resources to the segments and to assess their performance. The company has adopted IFRS 8 for these financial statements. However, there has been no material change in presentation of these statements because the company operates one class of business, that of acting as issuer for Network Rail's DIP and undertakes that class of business in one geographical area, Great Britain. The company's debt was also issued in currencies other than sterling and sold to overseas investors.

Intra-group borrowings

The company provides the Network Rail group with funding. It 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. The nature of the arrangement means that the instrument fails the Solely Payment of Principal and Interest test under IFRS 9 and as such, the entire instrument is measured at fair value through profit or loss.

Debt

Debt instruments are initially measured at fair value, and subsequently designated and measured at Fair Value Through Profit and Loss (FVTPL). The intra-group borrowings from NRIL are measured at FVTPL. Given the relationship between this balance and the debt instruments, the debt instruments were designated at fair value through profit or loss. This treatment results in all fair value movements on debt being effectively being passed to NRIL within these financial statements, in line with the intercompany agreement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the period in which they arise and are not capitalised against the financial instrument measured at FVTPL.

Notes to the Financial Statements (continued)

2. Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting

The company's activities expose it to the financial risks of changes in interest rates and foreign currency exchange rates. The company uses interest rate swaps and cross currency swaps to hedge these exposures.

Interest rate swaps and cross currency swaps are recorded at fair value at inception and at each balance sheet date. Movements in fair value are recorded in other gains and losses in the statement of comprehensive income.

Derivatives are presented in the balance sheet in line with their maturity dates.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at exchange rates prevailing at the end of the financial year. Individual transactions denominated in foreign currencies are translated into sterling at the exchange rates prevailing on the date payment takes place. Gains or losses realised on any foreign exchange movements are now captured within the fair value line of 'Other Gains and Losses' in the statement of comprehensive income.

Tax

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

Notes to the Financial Statements (continued)

3. Staff costs

The directors received no remuneration for their services in the current or prior year. Other than the directors, there were no employees of the company in the current or prior year. Administration services are provided by NRIL.

4. Auditors' remuneration

Fees payable to the company auditors for the audit of the company's annual accounts of £26,250 (2019: £25,000) have been borne by NRIL. No other fees were payable by the company to the company auditors in the current or prior year.

5. Finance income and finance costs

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Finance income		
Interest receivable from NRIL	**1,185**	1,178
Interest receivable on investments	**4**	9
Total finance income	**1,189**	1,187
Finance costs		
Interest payable on debt issued under the DIP	**(940)**	(934)
Interest on bank loans and overdrafts	**(19)**	(21)
Net interest on derivative instruments	**(230)**	(232)
Total finance costs	**(1,189)**	(1,187)

Notes to the Financial Statements (continued)

6. Other gains and losses

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
(Loss)/gain on fair value of external debt	**(862)**	(910)
Net gain /(loss) on fair value of external derivative financial instruments	**231**	(8)
Gain/(loss) on fair value of intercompany loan to NRIL	**631**	918
Total gains and (losses)	**-**	-

All gains and losses on intra-group borrowings are passed onto NRIL. More details are provided in the intra-group borrowings section of Note 2.

Notes to the Financial Statements (continued)

7. Receivables

	31 March 2020 £m	31 March 2019 £m
Non-current assets		
Loans to NRIL	**30,506**	30,650
	30,506	30,650
Current assets		
Interest on loans to NRIL	**180**	177
Loans to NRIL	**1,013**	-
Interest on investments	**-**	-
Collateral placed with banking counterparties	**534**	727
	1,727	904
Total receivables	**32,233**	31,554

The company believes that amounts receivable from NRIL and the banking counterparties represent a high level of credit quality and as such, no credit losses have been recognised. The high credit quality of NRIL accompanied with the nature of the intercompany agreement results in the balance matching the value of loans disclosed in note 9.

8. Other payables

	31 March 2020 £m	31 March 2019 £m
Current liabilities		
Collateral received from banking counterparties	**120**	38
Interest payable on bonds issued under the DIP	**178**	175
Interest payable on European Investment Bank long term loans	**2**	2
Total payables	**300**	215

Notes to the Financial Statements (continued)

9. Loans

Bonds issued under the DIP are analysed as follows:

	31 March 2020 £m	31 March 2019 £m
4.625% sterling bond due 2020	**1,013**	1,049
2.76% Swiss franc bond due 2021	**262**	251
2.315% Japanese yen bond due 2021	**77**	73
2.28% Japanese yen bond due 2021	**77**	73
2.15% Japanese yen bond due 2021	**77**	73
3% sterling bond due 2023	**434**	435
4.75% sterling bond due 2024	**869**	881
1.9618% sterling index linked bond due 2025	**483**	486
4.615% Norwegian krone bond due 2026	**47**	53
4.57% Norwegian krone bond due 2026	**13**	15
1.75% sterling index linked bond due 2027	**5,138**	5,186
4.375% sterling bond due 2030	**1,194**	1,153
4.75% sterling bond due 2035	**1,914**	1,812
1.6492% sterling index linked bond due 2035	**770**	738
1.375% sterling index linked bond due 2037	**6,922**	6,687
4.6535% sterling bond due 2038	**161**	147
1.2025% sterling index linked bond due 2039	**106**	103
1.2219% sterling index linked bond due 2040	**547**	520
1.1795% sterling index linked bond due 2041	**102**	99
1.1565% sterling index linked bond due 2043	**85**	83
1.5646% sterling index linked bond due 2044	**648**	609
1.1335% sterling index linked bond due 2045	**78**	76
1.125% sterling index linked bond due 2047	**8,149**	7,813
0% sterling index linked bond due 2047	**96**	92
0.678% sterling index linked bond due 2048	**191**	185
1.003% sterling index linked bond due 2051	**43**	42
0.53% sterling index linked bond due 2051	**205**	197
0.517% sterling index linked bond due 2051	**205**	197
0% sterling index linked bond due 2051	**244**	235
1.085% sterling index linked bond due 2052	**225**	206
0% sterling index linked bond due 2052	**244**	235
Total bonds issued under DIP	**30,619**	29,804
Index linked European Investment Bank due 2036 and 2037	**900**	853
Total bonds issued	**31,519**	30,657
Split as:		
Current	**1,013**	-
Non-current	**30,506**	**30,657**
Total	**31,519**	**30,657**

The Secretary of State for Transport has provided an unlimited financial indemnity in respect of the above borrowings and those borrowings under the DIP which expires in 2052.

Notes to the Financial Statements (continued)

10. Net borrowings

	31 March 2020 £m	31 March 2019 £m
Net borrowings by instrument		
Cash and cash equivalents	**-**	-
Collateral receivable	**534**	727
Collateral obligation	**(120)**	(38)
Bank loans	**(900)**	(853)
Bonds issued under the DIP	**(30,619)**	(29,804)
	(31,105)	(29,968)
Movement in net borrowings		
At the beginning of the year	**(29,968)**	(31,040)
Increase/(Decrease) in cash and cash equivalents	**-**	(1)
Movement in collateral receivable	**(155)**	(23)
Movement in collateral obligation to counterparties	**(120)**	49
Repayments of borrowings	**-**	1,738
Exchange differences	**-**	-
Fair value and other movements	**(862)**	(691)
At the end of the year	**(31,105)**	(29,968)
Net borrowings are reconciled to the balance sheet as set out below:		
Cash and cash equivalents	**-**	-
Collateral receivable	**534**	727
Collateral obligation	**(120)**	(38)
Borrowings included in current liabilities	**(1,013)**	-
Borrowings included in non-current liabilities	**(30,506)**	(30,657)
At the end of the year	**(31,105)**	(29,968)

Notes to the Financial Statements (continued)

11. Financial instruments

The fair values of financial assets and liabilities are recognised at the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All financial assets and liabilities are carried at fair value.

Bonds issued by NRIF benefit from a credit enhancement provided by the financial indemnity from the Secretary of State for Transport. This credit enhancement is reflected in the fair value of the bonds disclosed above.

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 or indirectly. The fair value of interest rate and cross currency swaps is calculated as the present value of the estimated future cash flows using yield curves at the reporting date; 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).

	31 March 2020 £m	31 March 2019 £m
Level 2:		
Derivative financial assets	**482**	350
Financial assets at fair value	**32,233**	31,554
Level 2:		
Derivative financial liabilities	**(895)**	(1,031)
Bonds	**(31,519)**	(30,657)
Current liabilities	**(300)**	(215)
Total	**1**	1

Since the company's bonds are traded with varying frequency, valuations are derived with reference to both directly observed activity on the bonds themselves and to observations of frequently traded reference gilts which have similar characteristics. The bonds are therefore classified as Level 2. A review of the categorisation of financial instruments 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 and out of Level 3 fair value measurements in the current or prior years. There were no changes in valuation techniques during the period.

Notes to the Financial Statements (continued)

11. Financial instruments (continued)

Fair values for Level 1 financial instruments are obtained from Bloomberg, and where applicable, directly from the relevant third parties.

Fair values for Level 2 financial instruments are derived from Bloomberg (interest rate swaps and cross currency swaps), apart from Level 2 financial liabilities (including collateral and accrued interest), which are carried at an amortised cost that approximates the fair value.

Derivatives are split as follows:

	31 March 2020 £m	31 March 2019 £m
Derivative financial assets – Current		
Interest rate swaps	**9**	10
Cross currency swaps	**1**	-
Total Current	**10**	10
Derivative financial assets – Non-current		
Interest rate swaps	**236**	119
Cross currency swaps	**236**	221
Total Non-current	**472**	340
Total Derivative financial assets	**482**	350
Derivative financial liabilities – Current		
Interest rate swaps	**(48)**	(51)
Total Current	**(48)**	(51)
Derivative financial liabilities – Non-current		
Interest rate swaps	**(847)**	(980)
Total Non-current	**(847)**	(980)
Total Derivative financial liabilities	**(895)**	(1,031)

Notes to the Financial Statements (continued)

12. Funding and financial risk management

Introduction

The company is not a member of the Network Rail group. However, for accounting purposes the company is treated as a subsidiary in the consolidated accounts of NRL. The Network Rail group as a whole is largely debt funded.

Summary table of financial assets and liabilities

The following table presents the carrying amounts and the fair values of the company's financial assets and liabilities at 31 March 2020 and 31 March 2019.

The fair values of financial assets and liabilities are recognised at the amount at which the instrument could be exchanged for in a current transaction between willing parties, other than in a forced or liquidation sale. Bank loans and bonds, financial assets and liabilities are carried at fair value. Those amounts are in accordance with the significant accounting policies set out in Note 2. Bank loans are valued based on market data at the balance sheet date and the net present value of discounted cash flows. Bonds issued under the DIP are valued based on market data at the balance sheet date. Where market data is not available valuations are obtained from dealing banks.

	31 March 2020		31 March 2019	
	Carrying value	**Fair Value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets				
Cash and cash equivalents	**-**	**-**	-	-
Loans and receivables – Loans to NRIL	**31,519**	**31,519**	30,650	30,650
Collateral receivable	**534**	**534**	727	727
	32,053	**32,053**	31,377	31,377
Other non-derivative financial assets				
Trade and other receivables at amortised cost	**180**	**180**	177	177
Derivatives				
Derivative financial instruments	**482**	**482**	350	350
Total derivatives	**482**	**482**	350	350
Total financial assets	**32,715**	**32,715**	31,904	31,904

Notes to the Financial Statements (continued)

12. Funding and financial risk management (continued)

	31 March 2020		31 March 2019	
	Carrying value	**Fair Value***	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial liabilities				
Collateral held	**(120)**	**(120)**	(38)	(38)
European Investment Bank loans	**(900)**	**(900)**	(853)	(853)
Bonds issued under the DIP	**(30,619)**	**(30,619)**	(29,804)	(29,804)
Cash and cash equivalents	**-**	**-**	-	-
	(31,639)	**(31,639)**	(30,695)	(30,695)
Trade and other payables at amortised cost	**(180)**	**(180)**	(177)	(177)
Derivatives				
Derivative financial instruments	**(895)**	**(895)**	(1,031)	(1,031)
Total derivatives	**(895)**	**(895)**	(1,031)	(1,031)
Total financial liabilities	**(32,714)**	**(32,714)**	(31,903)	(31,903)

*Refer to Note 11 for detail on determination of fair values of financial assets and liabilities (all classified as financial instruments)

Derivatives

The company has contracted with NRIL to administer the DIP, the terms of which are set out in an administration agreement. NRIL has a comprehensive risk management process and the Treasury Committee, being a full sub-committee of the Network Rail board, has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures.

Proceeds from the DIP are lent on to NRIL under the intercompany loan agreement which gives rise to an intercompany loan receivable. In addition, the company also uses other derivatives to reduce the foreign exchange risk and interest rate risk of NRIL. The company does not use derivative financial instruments for speculative purposes. The use of derivative instruments can give rise to credit and market risk. Market risk is the possibility that future changes in foreign exchange rates and interest rates may make a derivative more or less valuable. Since the company uses derivatives for risk management, market risk relating to derivative instruments will principally be offset by changes in the valuation of the underlying assets or liabilities.

Notes to the Financial Statements (continued)

12. Funding and financial risk management (continued)

Credit risk

The credit risk with regard to all classes of derivative financial instrument is limited because counterparties are banks with high credit ratings assigned by international credit-rating agencies. The treasury committee of the Network Rail board authorises the policy for setting counterparty limits based on credit-ratings.

The company spreads its exposure over a number of counterparties and has strict policies on how much exposure can be assigned to each counterparty before collateral is sought.

The concentration of the company's investments varies depending on the level of surplus liquidity. However, because of the strict criteria governing counterparties' suitability the risk is mitigated. The treasury committee of the Network Rail board also authorises the types of investment and borrowing instruments that may be used.

The credit risk on the intercompany loan with NRIL is considered limited as the Secretary of State for Transport has provided an unlimited financial indemnity in respect of borrowings under the DIP which expires in 2052 meaning that obligations to debt holders could still be fulfilled without NRIL.

Particular attention is paid to the credit risk of swap counterparties. 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 2020 the fair value of collateral held was £120m (2019: £38m). 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 2020 was £534m (2019: £727m).

Foreign exchange risk

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

The company considers a ten 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 company's net profit before tax or equity. This is due to the workings of the intercompany loan agreement.

Notes to the Financial Statements (continued)

12. Funding and financial risk management (continued)

Interest and inflation rate risk

The company is exposed to interest rate risk from its financing. Interest rate risk for all debt is managed by the use of interest rate swap contracts to limit the effects of movements in interest rates on floating rate liabilities.

Due to the workings of the intercompany loan agreement an increase or decrease in average interest rates during the year would have no impact upon the statement of comprehensive income, the net assets or the reserves of the company.

The company has certain debt issuances which are index-linked and so is exposed to movements in inflation rates. The company does not enter into any derivative arrangements to hedge these.

Due to the workings of the intercompany loan agreement an increase or decrease in average inflation rates during the year would have no impact upon the statement of comprehensive income, the net assets or the reserves of the company.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors. The treasury committee of the board of Network Rail has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. Liquidity is provided by monitoring that NRIL has sufficient funds to meet its obligations to NRIF. NRIL are able to vary drawdowns under the DfT loan agreement in order to maintain liquidity.

Treasury is subject to internal audits and committee reviews.

In addition, the Secretary of State for Transport has provided an unlimited financial indemnity in respect of borrowings under the DIP (which expires in 2052).

Notes to the Financial Statements (continued)

12. Funding and financial risk management (continued)

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

	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
31 March 2020					
Non derivative financial liabilities					
Bank loans and overdrafts	-	-	(1)	(522)	(523)
Sterling denominated DIP bonds	(1,196)	(150)	(1,552)	(3,171)	(6,069)
Sterling denominated index linked DIP bonds	(276)	(284)	(900)	(34,900)	(36,360)
Foreign currency denominated DIP bonds	(14)	(453)	(8)	(62)	(537)
Derivative financial liabilities					
Net settled derivative contracts	(189)	(113)	(149)	(34)	(485)
Gross settled derivative contracts – receipts	14	453	8	62	537
Gross settled derivative contracts – payments	(3)	(276)	(3)	(58)	(340)
Collateral held	(120)	-	-	-	(120)
	(1,784)	(823)	(2,605)	(38,685)	(43,897)

Notes to the Financial Statements (continued)

12. Funding and financial risk management (continued)

	Within 1 year £m	1-2 Years £m	2-5 years £m	5+ years £m	Total £m
31 March 2019					
Non derivative financial liabilities					
Bank loans and overdrafts	(6)	(6)	(18)	(582)	(612)
Sterling denominated DIP bonds	(196)	(1,196)	(1,600)	(3,273)	(6,265)
Sterling denominated index linked DIP bonds	(268)	(276)	(876)	(34,371)	(35,791)
Foreign currency denominated DIP bonds	(14)	(14)	(459)	(65)	(552)
Derivative financial liabilities					
Net settled derivative contracts	(231)	(137)	(247)	(44)	(659)
Gross settled derivative contracts – receipts	14	14	459	65	552
Gross settled derivative contracts – payments	(3)	(6)	(278)	(60)	(347)
Collateral held	(38)	-	-	-	(38)
	(742)	(1,621)	(3,019)	(38,330)	(43,712)

Notes to the Financial Statements (continued)

12. Funding and financial risk management (continued)

Offsetting financial assets and liabilities

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

				Related amounts not set off in the balance sheet		
	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**	**Financial liability derivatives**	**Net Collateral**	**Net amount**
31 March 2020	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Derivatives	**482**	**-**	**482**	**(895)**	**414**	**1**

				Related amounts not set off in the balance sheet		
	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	Financial liability derivatives	Net Collateral	Net amount
31 March 2019	£m	£m	£m	£m	£m	£m
Derivatives	350	-	350	(1,031)	689	8

Collateral consists of £534m (2019: £727m) receivable (Note 7) and £120m (2019: £38m) payable (Note 8.)

Notes to the Financial Statements (continued)

13. Share capital

	31 March 2020 £	31 March 2019 £
Authorised, issued and partly paid:		
2 ordinary shares of £1 fully paid up	**2**	2
49,998 ordinary shares of £1 partly paid to £0.25 each	**12,500**	12,500
	12,502	12,502

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

14. Notes to the cash flow statement

	31 March 2020 £m	31 March 2019 £m
Profit before tax	-	-
Operating cash flow before movements in working capital	-	-
(Decrease) / Increase in receivables	**(275)**	1,764
Net cash generated by operating activities	**(275)**	1,764

Cash and cash equivalents (which are represented as a single class of assets on the face of the balance sheet) comprise cash at bank.

15. Controlling party and related party transactions

50,000 shares of the company are held by Intertrust Corporate Services Limited. All shares and distributable reserves in the company are held for charitable purposes.

Legal control of the company is disclosed above but effective control of the company is held by Network Rail and therefore by the DfT and Secretary of State.

On this basis for accounting purposes the company is treated as a subsidiary in the consolidated accounts of Network Rail.

Transactions with NRIL are clearly identified within the relevant notes to the accounts.

Notes to the Financial Statements (continued)

16. 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