

Network Rail Infrastructure Finance PLC

Annual Report and Accounts

Year ended 31 March 2021

Company registration number 5090412

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Officers and professional advisers

Directors

Paul Marshall
Helena Whitaker
Clifford Pearce
Douglas Armour (resigned 22 January 2021)

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 2021.

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, Aa3 (outlook stable) by Moody's and AA- (outlook negative) by Fitch.

Financial review

During the year the company incurred finance costs of £879m (2019/20: £1,189m) 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 £333m 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. NRIF made a gain of £133m on its derivatives. This gain largely represents the reduction of the fair value of interest rate derivatives liabilities through interest paid on swaps (the latter is included in finance costs). These gains and losses were passed through to NRIL as part of the intercompany loan receivable. NRIF made £110k profit before tax (2020: £110k) in the year ended 31 March 2021, 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 decreased from £40,306m to £39,780m, reflecting fair value movements as well as the fact that one instrument whose value was £1,013m became due and repaid during 2020-21. Note 17 to the financial statements describes improvements in fair value analysis which has been applied retrospectively, preserving the comparability of these figures.

UK RPI index-linked debt was 88 per cent of gross debt at 31 March 2021.

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 is funded 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.

Directors' statement of compliance with duty to promote the success of the company

All directors are aware that they have a responsibility to act in good faith and in a way that promotes the success of NRIF for the benefit of all stakeholders. All decisions are undertaken with the sole objective that the Company is run successfully and in so doing have regard (amongst other matters) to the following factors:

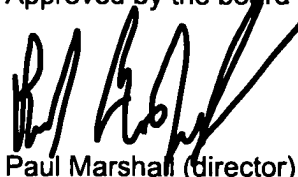
- A) The likely consequences of any decision in the long term.
- B) The interests of NRIL's employees. All NRIF's activities are administered by NRIL's employees and therefore the company does not have any employees.
- C) The need to foster the company's business relationships with all key stakeholders
- D) The impact of the company's operations on the community and the environment,

E) The desirability of the company maintaining a reputation for high standards of business conduct, and

F) The need to act fairly as between members and noteholders of the company

The above factors are derived from the governance structures of NRIF's effective controlling party Network Rail Limited (NRL), including its audit and risk committee. More information surrounding Corporate governance has been disclosed in the Directors' report below.

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



Paul Marshall (director)
30 July 2021

Directors' report

The directors present their report and the annual financial statements of the company for the year ended 31 March 2021.

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 (2020: £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. Given that the company's assets are due from Network Rail, the Directors took into account the publication of the Williams-Shapps Plan for Rail Review and its plans to reform the rail industry. This proposes that, commencing in late 2023, 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 Infrastructure Limited will be absorbed into the public body to bring about single, unified, and accountable leadership for the national network. At this stage it is not likely that this reform will involve the winding up of Network Rail Infrastructure Limited but in any event Great British Railways will assume the existing functions of Network Rail Infrastructure Limited as well as have a wider range of powers and functions. The publication of the Williams-Shapps Plan for Rail review has not had any impact on the preparation of these financial statements.

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.

Directors' report (continued)

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

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)
30 July 2021

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.

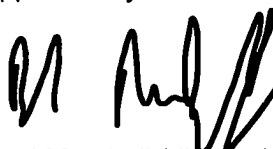
The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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)
30 July 2021

INDEPENDENT AUDITOR'S 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 2021 which 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 pursuant to Regulation (EC) No 1606/2002 as it applies in 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 2021 and of the company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to public interest entities. I am independent of the Network Rail Infrastructure Finance Plc

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.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of Authorities

Authorising legislation

Companies Act 2006 / Articles of Association

Parliamentary authorities

Network Licence

HM Treasury and related authorities

Managing Public Money

Conclusions relating to going concern

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

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 the Network Rail Infrastructure Finance Plc'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.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the 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) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

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 by the Board.

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 2021 the company recognised a liability of £40,042 million in respect of these instruments (31 March 2020: £40,720 million).

The company measures the value of the instruments using third-party valuations of prices, foreign currency rates and published RPI rates for bonds that comprise £38,427 million of this balance with the residual balance valued using an in-house model.

Whilst I considered the valuation of the bond portfolio to be a key audit matter, on the basis that 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.

Pricing analysis methodology for index-linked bonds

The company has previously calculated the fair value of its DIP bond portfolio by obtaining a price from Bloomberg and multiplying this by the nominal value of the bond.

The company identified that the pricing function used produces a price for 3 month lagged index linked bonds which – compared to the cash settlement in the market – is factored by the index ratio. To provide a true fair value, including the monetary amounts which market participants would assign to past movements in the index for RPI-linked bonds, the company determined that the index ratio should be re-applied as an adjustment for this class of bonds.

I re-calculated the full year-end valuation, including any interest costs, using market prices and foreign currency rates obtained from third parties.

For all bonds I also confirmed the details to the signed bond circulars and third-party evidence.

I have reviewed management's assessment of the appropriateness of using Bloomberg as valuation source. I have also reviewed the valuation methodology used to value the bonds for which prices cannot be obtained from Bloomberg. As part of this I have produced a benchmarking analysis by comparing prices produced by management to prices of actively traded instruments of similar nature.

Pricing analysis methodology for index-linked bonds

How the scope of my audit responded to the risk

I discussed the pricing issue described above with management, and reviewed correspondence between the company and Bloomberg and the subsequent workings based on additional Bloomberg pricing analysis which allowed appropriate adjustments. I also discussed the matter with our own independent pricing service, which confirmed that their analysis is provided on a comparable basis, and an adjustment has to be applied in calculating the fair value based on the index ratio.

I reviewed the revised calculation methodology for index linked bonds with 3-month lags. For the index-linked bonds I also re-calculated the accreted value by using the RPI rates published by the Office for National Statistics relevant for each bond.

Key observations

Management's application of the corrected methodology to the prior period has led to a restatement of the DIP bonds from £30,619m to £39,820m, with an equal and opposite adjustment made to the receivables balance. There is no impact on net

assets of this restatement in any year.

In the course of completing my audit work, including in respect of this restatement, I did not identify any material misstatement in the fair value of the bonds recognised, and disclosed, in the Financial statements.

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 2021 the company recognised a net liability of £262 million in respect of these instruments (31 March 2020: £413 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 sample testing of the derivative instruments held. For each instrument selected, I obtained the signed deal agreements 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.

We have also reviewed management's assessment of the appropriateness of using Bloomberg as valuation source for the derivative instruments and considered this reasonable.

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.

Application of materiality

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 Network Rail Infrastructure Finance Plc's financial statements as a whole as follows:

Network Rail Infrastructure Finance Plc	
Materiality	£105,000,000
Basis for determining materiality	Capped at the materiality of the parent company (NRIL)
Rationale for the benchmark applied	I calculated materiality based on approximately 1% of total liabilities as the purpose of Network Rail Infrastructure Finance Plc is to manage a portfolio of historical debt liabilities and the user of the financial statements will be focussed on the valuation of the liability. Materiality was calculated as £300,164,000 and then capped at £105,000,000 to ensure that work was performed at a sufficient level of detail to provide assurance for the parent company when consolidating Network Rail Infrastructure Finance into the group accounts.

Performance Materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 72% of company materiality for the 2020-21 audit (2019-20: 72%). In determining performance materiality, we have also considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Strategic Report or Directors' Report. 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.

Error Reporting Threshold

I agreed with the Board that I would report to it all uncorrected misstatements identified through my audit in excess of £1m, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements

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

Audit scope

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

Other Information

The other information comprises information included in the annual report but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so,

consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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; and
- the information about internal control and risk management systems in relation to financial reporting processes, and about share capital structures, in compliance with rules 7.2.5 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of Network Rail Infrastructure Finance Plc and its environment obtained in the course of the audit, I have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 of the FCA Rules.

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 our opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or certain disclosures of director's remuneration specified by law are not made; or

- a corporate governance statement has not been prepared by the parent company;
or
- I have not received all of the information and explanations I require for my audit;

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, Network Rail's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Network Rail Infrastructure Finance Plc's policies and procedures relating to:

- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance; and
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, the posting of unusual journal entries or adjustments, management's estimates and assumptions; and
- obtaining an understanding of Network Rail Infrastructure Finance Plc's framework of authority as well as other legal and regulatory frameworks that the Network Rail Infrastructure Finance Plc operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Network Rail Infrastructure Finance Plc. The key laws and regulations I considered in this context included the Network Licence, Managing Public Money, Companies Act 2006, Articles of Association and Listing Rules.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities

This description forms part of my certificate.

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.

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.

Other matters which I am required to address

The Comptroller and Auditor General was appointed by Network Rail Infrastructure Finance Plc Directors on 9 October 2015 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ending 31 March 2016 to 31 March 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

No other service in addition to the audit were provided to the company.

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



Matthew Kay (Senior Statutory Auditor)

30 July 2021

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Statement of comprehensive income

for the year ended 31 March 2021

	Notes	2021 £m	2020 £m
Result from operations		-	-
Finance income	5	879	1,189
Finance costs	5	(879)	(1,189)
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 2021

	Share capital £m	Retained earnings £m	Total equity £m
At 31 March 2019	-	1	1
Profit and total comprehensive income for the year	-	-	-
At 31 March 2020	-	1	1
Profit and total comprehensive income for the year	-	-	-
At 31 March 2021	-	1	1

Balance sheet

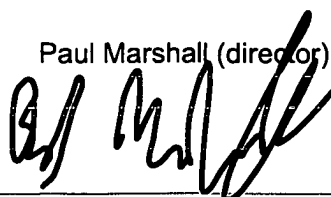
at 31 March 2021

	Notes	2021 £m	2020 £m (restated)*	2019 £m (restated)*
Non-current assets				
Receivables: amounts falling due after more than one year	7	39,609	39,707	38,809
Derivative financial instruments	11	191	472	340
Total non-current assets		39,800	40,179	39,149
Current assets				
Derivative financial instruments	11	194	10	10
Receivables: amounts falling due within one year	7	950	1,727	904
Cash and cash equivalents	10	-	-	-
Total current assets		1,144	1,737	914
Total assets		40,944	41,916	40,063
Current liabilities				
Loans	9	(433)	(1,013)	-
Derivative financial instruments	11	(82)	(48)	(51)
Other payables	8	(254)	(300)	(215)
Total current liabilities		(769)	(1,361)	(266)
Net current assets		375	376	648
Non-current liabilities				
Loans	9	(39,609)	(39,707)	(38,816)
Derivative financial instruments	11	(565)	(847)	(980)
Total non-current liabilities		(40,174)	(40,554)	(39,796)
Total liabilities		(40,943)	(41,915)	(40,062)
Net assets		1	1	1
Equity				
Share capital	13	-	-	-
Retained earnings		1	1	1
Total equity		1	1	1

*Prior period comparatives have been restated. See note 17 for further details

The financial statements on pages 20 to 41 were approved by the board of directors and authorised for issue on 30 July 2021. 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 2021

	Note	2021 £m	2020 £m
Cash flow from operating activities	14	848	(275)
Interest paid*		(629)	(673)
Net cash inflow / (outflow) from operating activities		219	(948)
Investing activities			
Interest received		629	673
Net cash inflow from investing activities		629	673
Financing activities			
Repayment of borrowings		(1,000)	-
Net collateral movement with counterparties		152	275
Cash settlement derivatives		-	-
Net cash (outflow) / inflow from financing activities		(848)	275
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		-	-
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 2021

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 7.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

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.

Functional and presentation currency

The financial statements are presented in Pound Sterling (£) which is the functional and presentation currency of Network Rail Infrastructure Finance Plc. 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 2020. There are no standards that are not yet effective that are expected to have a material impact on the company.

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

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.

Critical accounting judgements and key sources of uncertainty

Valuation of the debt portfolio by its nature includes judgements and estimates. 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. Where bonds are frequently traded and independent prices are available, these are used in valuing the bonds. Where bonds are infrequently traded, independent prices are determined using an independent pricing service. These valuations include the analysis of similar but more frequently traded bonds in order to determine a price. 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.

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 £27,500 (2020: £26,250) 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 2021 £m	Year ended 31 March 2020 £m
Finance income		
Interest receivable from NRIL	879	1,185
Interest receivable on investments	-	4
Total finance income	879	1,189
Finance costs		
Interest payable on debt issued under the DIP	(680)	(940)
Interest on bank loans and overdrafts	(15)	(19)
Net interest on derivative instruments	(184)	(230)
Total finance costs	(879)	(1,189)

Notes to the Financial Statements (continued)

6. Other gains and losses

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m (restated)
Loss on fair value of external debt	(333)	(1,904)
Net gain on fair value of external derivative financial instruments	133	231
Gain on fair value of intercompany loan to NRIL	200	1,673
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 2021 £m	31 March 2020 £m (restated)
Non-current assets		
Loans to NRIL	39,609	39,707
	39,609	39,707
Current assets		
Interest on loans to NRIL	150	180
Loans to NRIL	433	1,013
Interest on investments	-	-
Collateral placed with banking counterparties	367	534
	950	1,727
Total receivables	40,559	41,434

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 2021 £m	31 March 2020 £m
Current liabilities		
Collateral received from banking counterparties	105	120
Interest payable on bonds issued under the DIP	147	178
Interest payable on European Investment Bank long term loans	2	2
Total payables	254	300

Notes to the Financial Statements (continued)

9. Loans

Bonds issued under the DIP are analysed as follows:

	31 March 2021 £m	31 March 2020 £m (restated)
4.625% sterling bond due 2020	-	1,013
2.76% Swiss franc bond due 2021	235	262
2.315% Japanese yen bond due 2021	66	77
2.28% Japanese yen bond due 2021	66	77
2.15% Japanese yen bond due 2021	66	77
3% sterling bond due 2023	426	434
4.75% sterling bond due 2024	842	869
1.9618% sterling index linked bond due 2025	487	483
4.615% Norwegian krone bond due 2026	49	47
4.57% Norwegian krone bond due 2026	14	13
1.75% sterling index linked bond due 2027	7,226	7,275
4.375% sterling bond due 2030	1,138	1,194
4.75% sterling bond due 2035	1,798	1,914
1.6492% sterling index linked bond due 2035	769	770
1.375% sterling index linked bond due 2037	10,018	9,886
4.6535% sterling bond due 2038	149	161
1.2025% sterling index linked bond due 2039	146	145
1.2219% sterling index linked bond due 2040	546	547
1.1795% sterling index linked bond due 2041	141	140
1.1565% sterling index linked bond due 2043	119	115
1.5646% sterling index linked bond due 2044	658	648
1.1335% sterling index linked bond due 2045	109	107
1.125% sterling index linked bond due 2047	12,014	11,465
0% sterling index linked bond due 2047	151	161
0.678% sterling index linked bond due 2048	271	256
1.003% sterling index linked bond due 2051	61	58
0.53% sterling index linked bond due 2051	284	278
0.517% sterling index linked bond due 2051	285	279
0% sterling index linked bond due 2051	354	377
1.085% sterling index linked bond due 2052	337	317
0% sterling index linked bond due 2052	353	375
Total bonds issued under DIP	39,178	39,820
Index linked European Investment Bank due 2036 and 2037	864	900
Total bonds issued	40,042	40,720
Split as:		
Current	433	1,013
Non-current	39,609	39,707
Total	40,042	40,720

The Secretary of State for Transport has provided an unlimited financial indemnity, expiring in 2052, in respect of all DIP borrowings including all the bonds and bank loans listed above.

Notes to the Financial Statements (continued)

10. Net borrowings

	31 March 2021 £m	31 March 2020 £m (restated)
Net borrowings by instrument		
Cash and cash equivalents	-	-
Collateral receivable	367	534
Collateral obligation	(105)	(120)
Bank loans	(864)	(900)
Bonds issued under the DIP	(39,178)	(39,820)
	(39,780)	(40,306)
Movement in net borrowings		
At the beginning of the year	(40,306)	(38,128)
Increase/(Decrease) in cash and cash equivalents	-	-
Movement in collateral receivable	(167)	(155)
Movement in collateral obligation to counterparties	15	(120)
Repayments of borrowings	1,000	-
Exchange differences	-	-
Fair value and other movements	(322)	(1,903)
At the end of the year	(39,780)	(40,306)
Net borrowings are reconciled to the balance sheet as set out below:		
Cash and cash equivalents	-	-
Collateral receivable	367	534
Collateral obligation	(105)	(120)
Borrowings included in current liabilities	(433)	(1,013)
Borrowings included in non-current liabilities	(39,609)	(39,707)
At the end of the year	(39,780)	(40,306)

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 2021 £m	31 March 2020 £m (restated)
Level 2:		
Derivative financial assets	385	482
Financial assets at fair value	40,559	41,434
Level 1:		
Bonds	(14,222)	(5,424)
Level 2:		
Derivative financial liabilities	(647)	(895)
Bonds	(25,820)	(35,296)
Financial liabilities held at fair value	(254)	(300)
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

Notes to the Financial Statements (continued)

11. Financial instruments (continued)

frequently traded reference gilts which have similar characteristics. A review of the categorisation of financial instruments into the three levels is made at each reporting date. There was 1 transfer from Level 2 to Level 1 fair value measurements, and no transfers into and out of Level 3 fair value measurements in the current or prior years. A small number of privately held bonds have been valued by management in the current year, having previously been valued externally.

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 (bonds, interest rate swaps and cross currency swaps), apart from certain Level 2 financial liabilities (collateral and accrued interest), which are carried at an amortised cost that approximates the fair value.

Derivatives are split as follows:

	31 March 2021 £m	31 March 2020 £m
Derivative financial assets – Current		
Interest rate swaps	27	9
Cross currency swaps	167	1
Total Current	194	10
Derivative financial assets – Non-current		
Interest rate swaps	183	236
Cross currency swaps	8	236
Total Non-current	191	472
Total Derivative financial assets	385	482
Derivative financial liabilities – Current		
Interest rate swaps	(82)	(48)
Total Current	(82)	(48)
Derivative financial liabilities – Non-current		
Interest rate swaps	(565)	(847)
Total Non-current	(565)	(847)
Total Derivative financial liabilities	(647)	(895)

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 2021 and 31 March 2020.

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 2021		31 March 2020	
	Carrying value	Fair Value	Carrying value	Fair value
	£m	£m	£m	£m
			(restated)	(restated)
Financial assets				
Cash and cash equivalents	-	-	-	-
Loans and receivables – Loans to NRIL	40,042	40,042	40,720	40,720
Collateral receivable	367	367	534	534
	40,409	40,409	41,254	41,254
Other non-derivative financial assets				
Trade and other receivables at amortised cost	150	150	180	180
Derivatives				
Derivative financial instruments	385	385	482	482
Total derivatives	385	385	482	482
Total financial assets	40,944	40,944	41,916	41,916

Notes to the Financial Statements (continued)

12. Funding and financial risk management (continued)

	31 March 2021		31 March 2020	
	Carrying value £m	Fair Value* £m	Carrying value £m (restated)	Fair value £m (restated)
Financial liabilities				
Collateral held	(105)	(105)	(120)	(120)
European Investment Bank loans	(864)	(864)	(900)	(900)
Bonds issued under the DIP	(39,178)	(39,178)	(39,820)	(39,820)
Cash and cash equivalents	-	-	-	-
	(40,147)	(40,147)	(40,840)	(40,840)
Trade and other payables at amortised cost	(149)	(149)	(180)	(180)
Derivatives				
Derivative financial instruments	(647)	(647)	(895)	(895)
Total derivatives	(647)	(647)	(895)	(895)
Total financial liabilities	(40,943)	(40,943)	(41,915)	(41,915)

*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 2021 the fair value of collateral held was £105m (2020: £120m). 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 2021 was £367m (2020: £534m).

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 2021					
Non derivative financial liabilities					
Bank loans and overdrafts	(6)	(6)	(18)	(591)	(621)
Sterling denominated DIP bonds	(150)	(150)	(1,505)	(3,068)	(4,873)
Sterling denominated index linked DIP bonds	(275)	(279)	(1,288)	(27,811)	(29,653)
Foreign currency denominated DIP bonds	(441)	(3)	(8)	(57)	(509)
Derivative financial liabilities					
Net settled derivative contracts	(177)	(120)	(126)	(14)	(437)
Gross settled derivative contracts – receipts	712	29	88	29	858
Gross settled derivative contracts – payments	(1)	-	-	(1)	(2)
Collateral held	(105)	-	-	-	(105)
	(443)	(529)	(2,857)	(31,513)	(35,342)

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 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)

Offsetting financial assets and liabilities

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

	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 Financial liability derivatives	Net Collateral	Net amount
	£m	£m	£m	£m	£m	£m
31 March 2021						
Derivatives	385	-	385	(647)	262	-
31 March 2020						
Derivatives	482	-	482	(895)	414	1

Collateral consists of £367m (2020: £534m) receivable (Note 7) and £105m (2020: £120m) payable (Note 8.)

Notes to the Financial Statements (continued)

13. Share capital

	31 March 2021 £	31 March 2020 £
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 2021 £m	31 March 2020 £m
Profit before tax	-	-
Operating cash flow before movements in working capital	170	1,636
Decrease / (increase) in receivables	678	(1,911)
Net cash generated by operating activities	848	(275)

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.

17. Prior period error

During the current year it was identified that when valuing certain index linked loans, the full value attributable to the index linked features of the instruments had not been included in previous valuations as a result of the use, without adjustments, of a third party pricing function which provides quotations excluding these elements of value. The valuation of these instruments was then understated by this amount. The impact of the adjustment has been to increase the fair value of external bonds by £9,201m at 31 March 2020 and £8,159m at 31 March 2019. The impact of the changes in fair values has had a corresponding equal and opposite effect on the intracompany loan balance due from NRIL. Finally, the changes in fair values has resulted in the fair value movement on both external debt and the intragroup amount due from NRIL being restated also. At both 31 March 2019 and 31 March 2020, these changes have had no impact on the net assets of the company. The changes are as follows:

31 March 2019

	As previously stated £m	Adjustment £m	Restated £m
Loans to NRIL (Non-current)	30,650	8,159	38,809
Loans (Non-current)	(30,657)	(8,159)	(38,816)

31 March 2020

	As previously stated £m	Adjustment £m	Restated £m
Loss on fair value of external debt	(862)	(1,042)	(1,904)
Gain on fair value of intercompany loan to NRIL	631	1,042	1,673
Loans to NRIL (Non-current)	30,506	9,201	39,707
Loans (Non-current)	(30,506)	(9,201)	(39,707)