

## CREDIT OPINION

29 June 2016

### Update

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#### RATINGS

##### Network Rail Infrastructure Finance PLC

Domicile United Kingdom

Long Term Rating Aa1

Type Senior Secured - Fgn  
Curr

Outlook Negative

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

#### Contacts

Raffaella Altamura 44-20-7772-8613

VP-Senior Analyst

raffaella.altamura@moodys.com

Andrew Blease 44-20-7772-5541

Associate Managing

Director

andrew.blease@moodys.com

## Network Rail Infrastructure Finance PLC

Update following recent change of outlook to negative

### Summary Rating Rationale

The Aa1/Prime-1 ratings assigned, respectively, to Network Rail Infrastructure Finance PLC's (NRIF) GBP40 billion Multicurrency Note Programme (the Note Programme) providing for the issuance of multicurrency notes (the Notes) and GBP4 billion Multicurrency Euro and US Commercial Paper Programme (the CP Programme) providing for the issuance of commercial paper (CP) are based on (i) a mandatory debt service and repayment mechanic that requires prefunding of interest and principal payments of the notes and commercial paper issued, together with (ii) a requirement to make a drawing under an irrevocable financial indemnity provided by the Government of the United Kingdom (Aa1/Prime-1, negative outlook) if there are insufficient funds sitting in dedicated debt service prefunding accounts secured for the benefit of creditors of NRIF.

The financial indemnity is the key credit support document in the NRIF debt structure, and together with the other terms of the debt documentation, provides for NRIF's ratings to be equalised with those of the Government of the United Kingdom. NRIF's ratings move in lockstep with those of the sovereign and reflect the application of the methodology "Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts", published in December 2015.

Moody's expresses no credit opinion on the stand-alone credit quality of NRIF.

### Credit Strengths

- » Debt supported by an irrevocable financial indemnity provided by the Government of the United Kingdom

### Rating Outlook

The outlook is negative, reflecting the negative outlook on the rating of the Government of the United Kingdom, which is the primary driver of NRIF's credit risk.

### Factors that Could Lead to an Upgrade

The rating of NRIF will follow that of the Government of the United Kingdom. Hence, any upgrade in the rating of the Government of the United Kingdom will result in an upgrade of the rating of the Multicurrency Note and/or Commercial Paper programmes as the case may be.

## Factors that Could Lead to a Downgrade

Any downgrade in the rating of the Government of the United Kingdom will result in a downgrade of the rating of NRIF's Multicurrency Note and/or Commercial Paper programmes as the case may be.

## Detailed Rating Considerations

The servicing and repayment of what is called "Prefunded Debt" issued by NRIF (which includes the Notes issued under the Note Programme and CP issued under the CP Programme) must be done through dedicated debt service accounts, one for each currency of debt issued (Debt Service Prefunding Accounts). The Note Programme and CP Programme administrator, which is NRIL (the Administrator), has the continuous obligation to check that all the Debt Service Prefunding Accounts have sufficient cash to meet all debt service and repayments of Prefunded Debt due in the next six business days (except that the look-forward period for final maturities of debt instruments, including the Notes but not CP, is 21 business days). If there is insufficient funds in the Debt Service Prefunding Accounts (determined independently on a currency by currency basis), the Administrator must make a claim under the financial indemnity for the difference between the amount in the Debt Service Prefunding Accounts and the total amount of Prefunded Debt service and principal repayment due within the relevant period (called the Debt Service Shortfall Amount). The financial indemnity then pays out the Debt Service Shortfall Amount five business days later (or 20 business days later for final maturities of debt instruments subject to the 21 day look-forward test). The Administrator must also advise the NRIF Security Trustee, so that the Security Trustee can make the claim if the Administrator fails to do so. As a protective measure for debt creditors of NRIF, the NRIF Security Trustee holds the benefit of the financial indemnity, a floating charge over the assets of NRIF, and a fixed charge over NRIF bank accounts including the Debt Service Prefunding Accounts.

The financial indemnity is an unconditional and irrevocable undertaking to pay the Debt Shortfall Amounts in full including any required tax withholdings with no material defence against non-payment up to the later of 2052 and the date of the longest maturity debt issued by NRIF.

The NRIF funding structure effectively requires NRIF to prefund all debt service and final debt maturity amounts of Prefunded Debt. This requirement is further set out in an agreement between the Government of the United Kingdom and NRIL as Administrator and borrower of loans from NRIF.

In order to avoid the requirement to effectively cash collateralise CP issued with maturities of less than six days at the time of issue, NRIF has committed not to issue CP with maturities of less than six days.

Moody's understands that NRIF has changed the means by which it places funds in the Debt Service Prefunding Accounts to meet Note principal repayments to reduce financial risk even further than provided for by the transaction structure. The Debt Service Prefunding Accounts are held at HSBC Bank plc (HSBC). NRIF is therefore exposed to HSBC (Aa2, negative outlook) as deposit counterparty for the relevant time periods and this represents a material counterparty credit risk for NRIF as this exposure can be large at any one time. NRIF now enters into a repo arrangement with HSBC for the duration of the prefunding period applicable to Note repayments (21 business days), whereby NRIF enters into a collateralised deposit instead of just a straight term deposit. On the relevant prefunding date NRIF would place the cash into the Debt Service Prefunding Account, this cash will then be exchanged for high quality securities (typically gilts and US Treasuries - dependent on the currency of the deposit) of which NRIF will take full right and ownership of, then one business day prior to the Note redemption payment date, NRIF returns the securities and ownership back to HSBC, and receives the cash back ready for release to the note-holders on the due payment date.

## Corporate Profile

Network Rail Infrastructure Finance PLC (NRIF, Aa1/Prime-1, negative outlook) is a special purpose financing vehicle that exists solely to raise debt and to lend it on to Network Rail Infrastructure Limited (NRIL), which owns and operates the national rail infrastructure in Great Britain. Effective September 2014, Network Rail Limited, ultimate parent of NRIL, and all of its subsidiaries were reclassified as a Central Government body. As a result, NRIL became a public sector arm's-length body of the United Kingdom Department for Transport (DfT).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

Following the reclassification as a Central Government body, NRIL's financing requirements (including the funds needed to repay maturing NRIF obligations as they fall due) for the period to March 2019 are covered by a GBP 30.875 billion loan facility provided by the DfT. Therefore, NRIF is not expected to raise additional indebtedness under the Note Programme or the CP Programme, unless the loan facility provided by the DfT is withdrawn or the DfT fails to send funds as and when due. In addition, the Framework Agreement between Network Rail and the DfT says that the DfT will make a decision as to whether to extend the Loan Facility Agreement by April 2017.

### Rating Methodology and Scorecard Factors

The principal methodology used in this rating is Sovereign Bond Ratings, published in December 2015. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

### Ratings

Exhibit 1

Category	Moody's Rating
<b>NETWORK RAIL INFRASTRUCTURE FINANCE PLC</b>	
Outlook	Negative
Senior Secured	Aa1
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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## Contacts

Raffaella Altamura 44-20-7772-8613  
VP-Senior Analyst  
raffaella.altamura@moodys.com

Stefanie Voelz 44-20-7772-5555  
Senior Credit Officer  
stefanie.voelz@moodys.com

Andrew Blease 44-20-7772-5541  
Associate Managing  
Director  
andrew.blease@moodys.com

## CLIENT SERVICES

Americas 1-212-553-1653  
Asia Pacific 852-3551-3077  
Japan 81-3-5408-4100  
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