

# **European Rail Finance Holdings Limited**

**Annual report and financial statements**  
for the financial year ended 31 December 2019

**Registered No: IR443562**

**Annual report and financial statements**

for the financial year ended 31 December 2019

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## **Directors' report**

for the financial year ended 31 December 2019

The Directors present their Annual report together with the audited financial statements for the financial year ended 31 December 2019.

### **Principal activities**

European Rail Finance Holdings Limited (the "Company") continues to own all of the share capital of European Rail Finance (2) Limited, Eversholt Rail Leasing Limited and Eversholt Finance Holdings Limited. The Company forms part of the Eversholt UK Rails Group (the "Group") more fully described in note 17.

During the financial year, the Company received dividends of £nil (2018: £35,000,000). In addition, in 2018, a further dividend of £431,500,000 was received from European Rail Finance (2) Limited, the receipt of which was recorded as a reduction in the cost of investment in European Rail Finance (2) Limited from £431,500,001 to £1.

### **Business review**

In the financial year, the Company generated a profit of £1,079,000 (2018: £34,573,000). The reduction in profits in 2019 resulted from reduced dividends received, as noted above. As at 31 December 2019 the Company had net assets of £319,548,000 (2018: £410,169,000).

The Company is funded by borrowings and equity from its immediate parent.

The Company lends its surplus cash to Eversholt Rail Limited. The Company has no employees. Directors have been remunerated by another group undertaking, Eversholt Rail Limited.

### **Risk management**

The Company is subject to the risk management objectives and policies of the Group. The risks relevant to the Company, together with an analysis of the exposure to such risks, are set out in note 16 of the financial statements.

The principal business risk for the Company is the risk of diminution in the value of investments in its subsidiaries.

### **COVID-19**

The Directors have considered the potential impacts of COVID-19 upon the Company and its ability to meet commitments in the foreseeable future. The Company is exposed to the impacts of COVID-19 through its relationships with fellow group undertakings, which are ultimately dependent on the viability of the Group's rolling stock leasing business. One area of potential impact upon the Group's business is a threat to the viability of train operators due to long term passenger volume decline. This is largely mitigated in the short term by the UK Government's Emergency Management Arrangements, through which support is provided to franchised passenger service operators for a period of six months. At this stage, it is anticipated that demand for rail services in the UK will revert to historical levels once effective management of the disease is established. The Group's current rolling stock procurement, maintenance and enhancement plans may be subject to delays caused by COVID-19, however this is not considered material in the context of the business.

In common with UK businesses generally, the Group's business is also exposed to other risks including access to capital markets, impacts on supply chains, employee health and access to the workplace. The Group has introduced governance processes to closely monitor the impacts and where possible, mitigation has been put in place to limit the impact on the Group. The Group has access to undrawn borrowing facilities which could be utilised in the event of a prolonged severe period of disruption.

At this stage, the Directors do not believe that there are any material impacts on the Company, nor changes to risk management as described in note 16. The Directors consider the key critical judgement in reaching this conclusion to be the duration of restrictions on travel in response to COVID-19 and the UK Government's continued support to the rail industry. This conclusion reflects the nature of the Company's (and its subsidiaries') activities and the way in which cash is managed across the Group, enabling the Company to borrow funds from another group undertaking to meet any shortfall. Nevertheless, the Directors continue to keep the position under review, monitoring events and possible outcomes, as the full impact of COVID-19 emerges.

## **Directors' report (continued)**

for the financial year ended 31 December 2019

### **Financial performance**

The Company's results for the financial year are detailed in the Income statement on page 9.

The Group manages its operations on a consolidated basis, therefore the Company's Directors believe that further specific performance measures for the Company are not necessary or appropriate for an understanding of its performance. Performance measures for the Group are disclosed in the accounts of Eversholt UK Rails Limited.

### **Business environment**

The Directors monitor the business environment in which the Company's subsidiaries operate from a group perspective and details of relevant matters, including the withdrawal of the United Kingdom from the European Union and climate change, are disclosed in the Annual report and financial statements of Eversholt UK Rails Limited.

### **Political donations**

No political donations were made during the financial year (2018: £nil).

### **Directors**

The Directors who served at any time during the financial year and up to the date of signing were as follows:

#### **Name**

M B Kenny

A J Course (resigned on 16 September 2019)

A J Wesson

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. The Directors have no interests in the share capital of the Company.

### **Future developments**

The outbreak of COVID-19 is a very significant humanitarian and economic event facing many businesses. It has become clear that this will result in a significant economic slowdown, if not recession, in the months ahead. In this period of huge uncertainty, it is very difficult to make forward looking statements or predictions with any great certainty. However, we believe that the impact of COVID-19 will be a temporary disruption and will ultimately pass. In the meantime, we have stress tested our business model to understand what the impact would be, as discussed in the Going Concern statements in this annual report.

### **Dividends**

During the financial year, the Directors declared and paid dividends of £91,700,000 (2018: £90,000,000). Additionally dividends of £495,000 (2018: £495,000) relating to fixed rate preference shares were paid during the year.

### **Going concern basis**

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Company has the resources, with the support of the Group, to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the potential impact of COVID-19 upon the business described above.

**Directors' report (continued)**

for the financial year ended 31 December 2019

**Disclosure of information to the auditor**

Each person who is a director at the date of approval of this Annual report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director 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.

**Accounting records**

The Directors believe that they have complied with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to books of account by employing a service provider, which has appropriate expertise and provides adequate resources to the financial function. The accounting records of the Company are maintained primarily by Eversholt Rail Limited, 210 Pentonville Road, London N1 9JY and held by European Rail Finance Holdings Limited, Riverside One, Sir John Rogerson's Quay, Dublin 2, D02 X576, Ireland.

The Directors acknowledge that they are responsible for securing the Company's compliance with relevant obligations.

**Auditor**

Pursuant to Section 383(2) of the Companies Act 2014 the Auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Approved by the Board and signed on its behalf by:



**M B Kenny**

Director

Registered Office:  
Riverside One  
Sir John Rogerson's Quay  
Dublin 2, D02 X576  
Ireland

27 April 2020



**A J Wesson**

Director

## Statement of Directors' responsibilities

for the financial year ended 31 December 2019

The Directors are responsible for preparing the Annual report and financial statements in accordance with the Companies Act 2014.

Irish company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("relevant financial reporting framework"). 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 assets, liabilities and financial position of the Company as at the financial year end date and of the profit or loss of the Company for the financial year and otherwise comply with the Companies Act 2014.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies for the Company Financial Statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' report comply with the Companies Act 2014 and enable the financial statements to be audited.

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.

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

These financial statements have been approved by the Board of Directors on 27 April 2020 and were signed on its behalf by:



**M B Kenny**  
Director



**A J Wesson**  
Director

Registered Office:  
Riverside One  
Sir John Rogerson's Quay  
Dublin 2, D02 X576  
Ireland

## **Independent Auditor's report to the Members of European Rail Finance Holdings Limited**

for the financial year ended 31 December 2019

### **Opinion on the financial statements of European Rail Finance Holdings Limited (the "Company")**

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of the profit of the Company for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of cash flows;
- the Statement of changes in equity; and
- the related notes 1 to 19, including a summary of significant accounting policies as set out in note 3.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and IFRSs as adopted by the European Union ("the relevant financial reporting framework").

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under those standards are described below in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Accounting and Auditing Supervisory Authority, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have 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 of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the the Annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Independent Auditor's report to the Members of European Rail Finance Holdings Limited (continued)**

for the financial year ended 31 December 2019

### **Responsibilities of directors**

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either 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**

Our 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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) 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 (Ireland), we exercise professional judgement and maintain professional scepticism throughout the audit. We 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 our 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 control 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 the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company (or where relevant, the Group) to cease to continue as a going concern.
- 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.

We 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 the auditor identifies during the audit.



**Independent Auditor's report to the Members of European Rail Finance Holdings Limited (continued)**

for the financial year ended 31 December 2019

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

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Report on other legal and regulatory requirements**

**Opinion on other matters prescribed by the Companies Act 2014**

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the Directors' report is consistent with the financial statements and the Directors' report has been prepared in accordance with the Companies Act 2014.

**Matters on which we are required to report by exception**

Based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.



Makhan Chahal ACA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London  
United Kingdom

27 April 2020

## Income statement

for the financial year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Finance income	4	1,948	224
Finance expense	5	(495)	(631)
Dividend income	6	-	35,000
Administrative expense	7	(5)	(6)
<b>Profit before tax</b>		<b>1,448</b>	<b>34,587</b>
Income tax charge	8	(369)	(14)
<b>Profit for the financial year</b>		<b>1,079</b>	<b>34,573</b>

There were no discontinued or discontinuing operations during the financial year.

The notes on pages 13 to 24 form an integral part of these financial statements.

## Statement of comprehensive income

for the financial year ended 31 December 2019

There has been no comprehensive income or expense other than the profit for the financial year as shown above (2018: £nil).

The financial statements were approved by the Board of Directors and authorised for issue on 27 April 2020. They were signed on its behalf by:



**M B Kenny**  
Director



**A J Wesson**  
Director

Company registration number IR443562

**Statement of financial position**

as at 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	9	86,011	86,011
Amounts owed by group undertaking	10	283,451	373,688
		<u>369,462</u>	<u>459,699</u>
<b>Current assets</b>			
Current tax asset		-	17
		<u>-</u>	<u>17</u>
<b>Total assets</b>		<u>369,462</u>	<u>459,716</u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables	11	45	47
Current tax		369	-
		<u>414</u>	<u>47</u>
<b>Non-current liabilities</b>			
Borrowings	12	49,500	49,500
		<u>49,500</u>	<u>49,500</u>
<b>Total liabilities</b>		<u>49,914</u>	<u>49,547</u>
<b>Equity</b>			
Share capital	14	500	500
Capital contribution		125,000	125,000
Retained earnings		194,048	284,669
<b>Total equity</b>		<u>319,548</u>	<u>410,169</u>
<b>Total equity and liabilities</b>		<u>369,462</u>	<u>459,716</u>

The notes on pages 13 to 24 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 27 April 2020. They were signed on its behalf by:



**M B Kenny**  
Director



**A J Wesson**  
Director

Company registration number IR443562

**Statement of cash flows**

for the financial year ended 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Cash flow from operating activities</b>			
Profit before tax		1,448	34,587
Adjustment for:			
- Finance income	4	(1,948)	(224)
- Finance expense	5	495	631
- Dividend income	6	-	(35,000)
<b>Operating cash flow before changes in working capital</b>		<u>(5)</u>	<u>(6)</u>
Decrease in trade and other payables	11	(2)	-
<b>Cash flow (utilised)/generated by operating activities</b>		<u>(7)</u>	<u>(6)</u>
Group relief received		17	1
<b>Net cash generated by operating activities</b>		<u>10</u>	<u>(5)</u>
<b>Cash flow from investing activities</b>			
Movement on amounts due from Eversholt Rail Limited	13	92,185	(373,464)
Dividend received	6	-	35,000
Dividend received - part recovery of investment in subsidiary	6	-	431,500
<b>Net cash generated by investing activities</b>		<u>92,185</u>	<u>93,036</u>
<b>Cash flow from financing activities</b>			
Movement on amounts due to Eversholt Rail Limited		-	(2,536)
Fixed rate preference share interest paid	13	(495)	(495)
Dividends paid on ordinary shares	6	(91,700)	(90,000)
<b>Net cash utilised in financing activities</b>		<u>(92,195)</u>	<u>(93,031)</u>
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the financial year		-	-
<b>Cash and cash equivalents at the end of the financial year</b>		<u>-</u>	<u>-</u>

**Statement of changes in equity**

for the financial year ended 31 December 2019

	Note	Share capital £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018		500	125,000	340,096	465,596
Total comprehensive income		-	-	34,573	34,573
Dividends paid	6	-	-	(90,000)	(90,000)
<b>Balance at 31 December 2018</b>		<b>500</b>	<b>125,000</b>	<b>284,669</b>	<b>410,169</b>
Total comprehensive income		-	-	1,079	1,079
Dividends paid	6	-	-	(91,700)	(91,700)
<b>Balance at 31 December 2019</b>		<b>500</b>	<b>125,000</b>	<b>194,048</b>	<b>319,548</b>

Dividends of £183 per share were paid during the financial year (2018: £180 per share).

## Notes to the annual financial statements

for the financial year ended 31 December 2019

### 1 General Information

European Rail Finance Holdings Limited is a private company incorporated in the Republic of Ireland under the Companies Act 2014 and is limited by shares (see note 14). The registered office of the Company is Riverside One, Sir John Rogerson's Quay, Dublin 2, D02 X576, Ireland.

The place of central management and control of the Company is based in the UK, where the Company is tax resident.

### 2 Basis of Preparation

These financial statements are presented in sterling being the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The Company is exempt from the requirement to prepare consolidated financial statements by section 293 of the Companies Act 2014. These financial statements present information about the Company as an individual undertaking.

#### 2.1 Compliance with IFRSs

The financial statements of the Company have been prepared on the historical cost basis. These financial statements have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ("IASB") and as endorsed by the European Union ("EU"). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2019, there were no unendorsed standards effective for the financial year ended 31 December 2019 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of the Company for the financial year ended 31 December 2019 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the IFRS Interpretations Committee and its predecessor body.

#### 2.2 Standards and Interpretations issued by the IASB

During the financial year, the Company adopted the following interpretations and amendments to standards which had no material effect on the financial statements:

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- Annual Improvements to IFRS Standards 2015-2017 Cycle; and
- IFRS 16 Leases.

At 31 December 2019, a number of standards and amendments to standards have been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2019. The following adopted IFRSs have been issued but have not been applied by the Company in these financial statements. They are applicable for periods beginning on or after 1 January 2020 and are not anticipated to have a material impact on the financial statements. Amendments to IFRS 3 Business Combinations

- Amendments to IFRS 3: Business Combinations;
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform;
- Amendments to IAS 1 and IAS 8: Definition of Material; and
- Amendments to References to the Conceptual Framework in IFRS Standards.

## Notes to the annual financial statements (continued)

for the financial year ended 31 December 2019

### 2 Basis of Preparation (continued)

#### 2.3 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position as well as the financial position of the Company, its cash flows, liquidity position and the borrowing facilities, are described in the Directors' Report. In addition, note 16 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

These financial statements have been prepared on a going concern basis which presumes that the Company has adequate resources to remain in operation and that the Directors intend it to do so for at least one year from the date of the financial statements are signed. The Company is part of a larger group and participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company is expected to continue to be in a position to obtain finance via intercompany loans to operate for the foreseeable future. In completing this analysis the Directors have considered the commitment and ability of the Group to continue provide such finance.

Notwithstanding the extraordinary circumstances brought about by the COVID-19 crisis, the Directors are satisfied at this stage that the Company and Group's forecasts and projections, taking into account reasonable possible changes in trading performance and other uncertainties, together with the Group's cash position and access to the revolving credit facility show that the Company and Group are able to operate within its current facilities for the foreseeable future. However, given the recent COVID-19 pandemic, which has seen widespread humanitarian and economic disruption across the globe, a degree of operational disruption has inevitably been experienced across the Group and alternative working practices have been introduced in mitigation.

COVID-19 will cause widespread economic disruption but its impact should be temporary. The Group has reasonable diversity within its revenue streams and is supported by the UK Government's Emergency Management Arrangements which guarantee funds to its customers, the Train Operating Companies, which underpin the Group's revenues for the period to September 2020. Notwithstanding this, the Directors have materially increased their stress testing to assess the impact that a realistic worse case COVID-19 downside scenario would have. Under this realistic worse case, the Group would remain within borrowing covenants and continue to be able provide financing to its subsidiaries including the Company. The loss of revenue should not impact on the Group's longer-term prospects once business returns to normal. For this reason, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

### 3 Summary of significant accounting policies

The principal accounting policies adopted are set out below and have been applied consistently to all years presented in these financial statements, except where noted in relation to standards implemented for the first time in 2019.

#### 3.1 Finance income and expense

Finance income and expense for all interest bearing non-derivative financial instruments is recognised in "Finance income" and "Finance expense" in the Income statement using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant financial years.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability on initial recognition. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

## Notes to the annual financial statements (continued)

for the financial year ended 31 December 2019

### 3 Summary of significant accounting policies (continued)

#### 3.1 Finance income and expense (continued)

Finance expense also includes interest payable in relation to derivative instruments.

#### 3.2 Income tax

Income tax comprises current tax and is recognised in the Income statement.

Current tax is the tax expected to be payable on the taxable profit for the financial year, calculated using tax rates enacted or substantively enacted by the end of the reporting financial year and any adjustment to tax payable in respect of previous financial years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists.

#### 3.3 Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting financial year. Any resulting exchange differences are included in the Income statement.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

#### 3.4 Dividend income

Dividend income from investments is recognised when the right to receive payment is established.

#### 3.5 Subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. The Company's investments in subsidiaries are stated at cost being the fair value at acquisition date less any impairment losses. Any impairment loss recognised in prior years shall be reversed through the Income statement if, and only if, there has been a change in the estimates used to determine the recoverable amount of the investment in the subsidiary since the last impairment loss was recognised.

#### 3.6 Financial instruments

Financial assets and financial liabilities are recognised in the Company's Statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

##### Classification and measurement

Financial assets are classified and measured by reference to the business model in which assets are managed and their cash flow characteristics.

The Company holds the following classes of financial instruments:

##### Amounts owed by group undertaking

"Amounts owed by group undertaking" is held in order to collect the related contractual cash flows and contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest. It is initially recorded at fair value plus any directly attributable transaction costs and is subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

It is derecognised when either borrowers repay their obligations, or the loan is sold or written off, or substantially all the risks and rewards of ownership are transferred.



## **Notes to the annual financial statements (continued)**

for the financial year ended 31 December 2019

### **3 Summary of significant accounting policies (continued)**

#### **3.6 Financial instruments (continued)**

##### **Financial liabilities**

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. The Company derecognises the financial liability when the obligations specified in the contract expire, are discharged or cancelled.

##### **Impairment of financial assets**

A 12 month expected credit loss (“ECL”) allowance is carried for financial assets carried at amortised cost where the credit risk has not increased significantly since the initial recognition. Where credit risk has increased significantly, lifetime ECL allowance will be carried.

Financial assets for which there is objective evidence of impairment, are considered to be in default or otherwise credit-impaired for disclosure purposes.

Financial assets (and the related impairment allowances) are written off, either partially or in full, when there is no realistic prospect of recovery. The amounts written off reflect the proceeds from realisation of any collateral underpinning the asset.

##### **Determination of fair value**

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration paid or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Where required, fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

#### **3.7 Statement of cash flows**

The Statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under “Operating activities”, movements in amounts due from/to group undertakings are shown under the headings of “Investing activities” and “Financing activities” respectively.

#### **3.8 Share capital**

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

Dividends payable in relation to equity shares are recognised as a liability in the financial year in which they are declared.

#### **3.9 Use of judgements, estimates and assumptions**

In the application of the Company’s accounting policies, management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

There are no accounting policies that are deemed critical to the Company’s results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation.

**Notes to the annual financial statements (continued)**

for the financial year ended 31 December 2019

**3 Summary of significant accounting policies (continued)****3.9 Use of judgements, estimates and assumptions (continued)**

There are no sources of estimation uncertainty in the financial year that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

**3.10 Preference shares**

Preference shares are classified as a liability where the holder of these shares has a fixed entitlement to a dividend. The dividend payable is recorded within finance expense.

**4 Finance income**

	2019 £'000	2018 £'000
Interest receivable from Eversholt Rail Limited	<u>1,948</u>	<u>224</u>

Finance income represents income on financial assets carried at amortised cost.

**5 Finance expense**

	2019 £'000	2018 £'000
Dividend on fixed rate preference shares	(495)	(495)
Interest payable to Eversholt Rail Limited	-	(136)
	<u>(495)</u>	<u>(631)</u>

Finance expense represents expense on financial liabilities carried at amortised cost.

**6 Dividends**

During the financial year, the Company received dividends of £nil (2018 £35,000,000). In 2018, a further dividend of £431,500,000 was received from European Rail Finance (2) Limited, the receipt of which was recorded as a reduction in the cost of investment in European Rail Finance (2) Limited from £431,500,001 to £1.

The Company paid dividends of £91,700,000 during the financial year (2018: £90,000,000).

**7 Administrative expense**

Administrative expense includes the following:

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	(5)	(6)

The Company has no employees and hence no staff costs (2018: £nil).

The Directors have been paid by another group undertaking, Eversholt Rail Limited. No specific charge has been made to the Company in this regard, therefore, the Directors' remuneration is £nil (2018: £nil) and all disclosures relating to sections 305 and 306 of Companies Act 2014 are £nil (2018: £nil).

**8 Income tax charge**

	2019 £'000	2018 £'000
<b>Current tax</b>		
On current financial year profit	(369)	(16)
On prior financial year profit	-	2
<b>Total income tax charge</b>	<u>(369)</u>	<u>(14)</u>

The UK corporation tax rate for the year ended 31 December 2019 and 31 December 2020 was 19%.

**Notes to the annual financial statements (continued)**

for the financial year ended 31 December 2019

**8 Income tax charge (continued)**

The following table reconciles the tax expense which would apply if all profits had been taxed at the UK corporation tax rate:

	2019 £'000	2018 £'000
Profit before tax	1,448	34,587
Taxation at corporation tax rate of 19% (2018: 19%)	(275)	(6,572)
Non-taxable (expense)/income	(94)	6,556
Prior financial year adjustment	-	2
Income tax charge	<u>(369)</u>	<u>(14)</u>

**9 Investments in subsidiaries**

	2019 £'000	2018 £'000
Cost at 31 December	<u>86,011</u>	<u>86,011</u>

The subsidiary undertakings of the Company at the end of the financial year were:

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage	
				2019	2018
European Rail Finance Limited*	Ordinary Shares	Ireland**	Leasing	100	100
Eversholt Rail Leasing Limited	Ordinary Shares	England***	Leasing	100	100
Eversholt Rail Holdings (UK) Limited*	Ordinary Shares	England***	Investment	100	100
Eversholt Rail Limited*	Ordinary Shares	England***	Management services	100	100
Eversholt Depot Finance Limited*	Ordinary Shares	England***	Leasing	100	100
Eversholt Rail (365) Limited*	Ordinary Shares	England***	Leasing	nil	100
Eversholt Finance Holdings Limited	Ordinary Shares	England***	Investment	100	100
Eversholt Funding plc*	Ordinary Shares	England***	Financing	100	100
European Rail Finance (2) Limited	Ordinary Shares	Ireland**	Investment	100	100

\* Indirect subsidiaries

\*\* Registered office: Riverside One, Sir John Rogerson's Quay, Dublin 2, D02 X576, Ireland

\*\*\* Registered office: 210 Pentonville Road, London, N1 9JY

Following a deterioration in Class 365's prospects during 2019, a liquidator was appointed to Eversholt Rail (365) Limited on 19 August 2019. Eversholt Rail (365) Limited was subject to a separate financing structure and established prior to privatisation in the 1990s. Being ring-fenced in this way, its current financial situation has no bearing upon any fellow subsidiary or parent undertaking, other than in relation to intercompany receivables. With effect from this date, the Company no longer controls Eversholt Rail (365) Limited.

Eversholt Rail Holdings (UK) Limited was dissolved on 4 February 2020.

**Notes to the annual financial statements (continued)**

for the financial year ended 31 December 2019

**10 Amounts owed by group undertaking**

<b>Non-current</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Eversholt Rail Limited	<u>283,451</u>	<u>373,688</u>

The intercompany loan to Eversholt Rail Limited is classified as non-current as it is repayable on 4 November 2023. Borrowing entities may prepay and withdraw loans until the repayment date. Interest on the loan is receivable monthly at LIBOR, less margin.

It is anticipated that LIBOR will be replaced or discontinued after the end of 2021, as part of global financial regulators' project to reform interest rate benchmarks. The Company will therefore re-negotiate and/or otherwise amend to accommodate such change in benchmarks, where related instruments mature after 2021.

In preparing the Statement of cash flows, the amounts due from Eversholt Rail Limited have been presented as a "cash flow from investing activities". In the 2018 financial statements, such amounts were presented as "cash flow from financing activities" and hence the current year's comparative has been restated.

**11 Trade and other payables**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Accrued interest on preference shares	42	42
Accruals	<u>3</u>	<u>5</u>
	<u>45</u>	<u>47</u>

**12 Borrowings**

<b>Non-current</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Fixed rate preference shares	<u>49,500</u>	49,500
	<u>49,500</u>	<u>49,500</u>

The fixed rate preference shares, being 49,500,000 fixed rate preference shares of £1 each, are held by Eversholt Investment Limited. Dividends are paid annually at a rate of 1% per annum.

**13 Reconciliation of assets and liabilities arising from investing and financing activities**

31 December 2019

	<b>As at 31 December 2018 £'000</b>	<b>Cash Flows (receipts)/ payments £'000</b>	<b>Non-cash finance income/ (expense) £'000</b>	<b>As at 31 December 2019 £'000</b>
<b>Investing/financing activities attributable to:</b>				
<b>Assets</b>				
Amounts owed by group undertaking Eversholt Rail Limited	<u>373,688</u>	<u>(92,185)</u>	<u>1,948</u>	<u>283,451</u>
<b>Liabilities</b>				
Fixed rate preference shares	<u>(49,500)</u>	<u>495</u>	<u>(495)</u>	<u>(49,500)</u>

**Notes to the annual financial statements (continued)**

for the financial year ended 31 December 2019

**13 Reconciliation of assets and liabilities arising from investing and financing activities (continued)**

31 December 2018	As at 31 December 2017 £'000	Cash Flows payments £'000	Non-cash finance income/ (expense) £'000	As at 31 December 2018 £'000
<b>Investing/financing activities attributable to:</b>				
<b>Assets</b>				
Amounts owed by group undertaking Eversholt Rail Limited	-	373,464	224	373,688
<b>Liabilities</b>				
Eversholt Rail Limited	(2,400)	2,536	(136)	-
Fixed rate preference shares	(49,500)	495	(495)	(49,500)
	<u>(51,900)</u>	<u>3,031</u>	<u>(631)</u>	<u>(49,500)</u>

**14 Share capital**

	2019 £'000	2018 £'000
<b>Authorised</b>		
Ordinary shares of £1 each	<u>50,500</u>	<u>50,500</u>
<b>Issued, allotted, called up and fully paid</b>		
Ordinary shares of £1 each	<u>500</u>	<u>500</u>

The holders of ordinary shares are entitled to attend and vote at annual general meetings and receive dividends as and when declared.

Additionally, the Company has authorised, issued and fully paid 49,500,000 fixed rate preference shares of £1 each classed as borrowings.

**15 Fair value of financial assets and liabilities**

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2019 and 31 December 2018.

**16 Risk management**

The Company has exposure to the following types of risk arising from its use of financial instruments: capital risk, credit risk, liquidity risk and market risk. In addition, the Company is exposed to the risk of diminution in the value of the investment in its subsidiaries. Market risk includes foreign exchange risk and interest rate risk.

Sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 3.9.

The management of all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this note.

## **Notes to the annual financial statements (continued)**

for the financial year ended 31 December 2019

### **16 Risk management (continued)**

#### **16.1 Capital risk management**

The Board actively monitors the capital structure of the Company to ensure that it is able to continue as a going concern and can generate attractive and predictable returns for shareholders and benefits for other stakeholders. Consideration is given to the availability, cost and risks associated with each class of capital.

The capital structure of the Company consists principally of borrowings and equity from its immediate parent.

The Company is not subject to any externally imposed capital requirements.

#### **16.2 Credit risk management**

Credit risk is the risk of financial loss if a counterparty fails to meet its obligations under a contract. The Company's principal credit exposure arises from the ability of its counterparties to service their obligations under the lending arrangements.

The Company monitors the exposure to Eversholt Rail Limited on a regular basis. This includes considering the borrower's ability to service its obligations to the Company and other creditors, having regards to past, current and future circumstances.

The loan is performing in accordance with the terms of the arrangement i.e. all payments to date as well as those expected in the future, have been made/are expected to be made in accordance with the underlying contractual terms. No part of the financial asset is credit impaired or overdue or in default. For these purposes, the Company defines "default" as where the obligor has failed to meet its obligations under the contract and "credit impaired" where there is objective evidence as to a credit event for the obligor. The definition has been applied historically by the Company and is regarded as appropriate having regard to the nature of the Company's exposure and past experience.

The carrying value of the loan receivable represents the Company's maximum credit exposure to the borrower.

In light of the above, the Company has determined that no ECL allowance is required in relation to its loan receivable. This reflects the Company's assessment of the borrower's risk and exposure, together with nature of recourse to which the lender and borrower would have access in the event of a potential issue.

#### **16.3 Liquidity risk management**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company monitors its cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. Cash is managed on a consolidated basis across the Group which enables the Company to borrow funds from another group undertaking to meet any shortfall. Conversely, the Company lends any surplus funds to other group undertakings. Liquidity is further under-pinned by the ability of certain group undertakings to borrow under a £600m revolving credit facility which matures on 4 November 2023 and lend proceeds to the Company.

Undiscounted cash flows in respect of financial assets and financial liabilities are analysed below by their contractual due date, including estimated interest cash flows where appropriate:

**Notes to the annual financial statements (continued)**

for the financial year ended 31 December 2019

**16 Risk management (continued)****16.3 Liquidity risk management (continued)**

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
<b>31 December 2019</b>						
<b>Financial Assets</b>						
Amortised cost						
Amounts owed by group	283,451	283,451	-	-	283,451	-
<b>Financial liabilities</b>						
Amortised cost						
Trade and other payables	45	45	-	45	-	-
Preference shares	49,500	49,500	-	-	49,500	-
	49,545	49,545	-	45	49,500	-
<b>Total financial instruments</b>	<b>233,906</b>	<b>233,906</b>	<b>-</b>	<b>(45)</b>	<b>233,951</b>	<b>-</b>
<b>31 December 2018</b>						
<b>Financial Assets</b>						
Amortised cost						
Amounts owed by group undertaking	373,688	373,688	-	-	373,688	-
<b>Financial liabilities</b>						
Amortised cost						
Trade and other payables	47	47	-	47	-	-
Preference shares	49,500	49,500	-	-	49,500	-
	49,547	49,547	-	47	49,500	-
<b>Total financial instruments</b>	<b>324,141</b>	<b>324,141</b>	<b>-</b>	<b>(47)</b>	<b>324,188</b>	<b>-</b>

Undiscounted cash flows in respect of the intercompany loan with Eversholt Rail Limited include the principal amount due to the uncertainty of intercompany movements and of interest estimation. Interest on intercompany loans is settled as part of intercompany cash movements.

**16.4 Market risk management**

The Company is not exposed to foreign exchange risk on its financial assets and financial liabilities.

The Company has exposure to fluctuations in interest rates. The exposure is managed at a group level through the use of interest rate swaps. The net cost or benefit of the use of swaps is taken into account in determining the interest charged on loans from other group entities.

	2019 £'000	2018 £'000
<b>Fixed rate instruments</b>		
Financial liabilities	(49,500)	(49,500)
<b>Variable rate instruments</b>		
Financial assets	283,451	373,688

**Interest rate sensitivity analysis**

A 50 basis points increase in LIBOR would have resulted in an increase in intercompany interest income of £171,000 (2018: £15,000) and an increase in intercompany interest expense of £nil (2018:£13,000). This represents a reasonable approximation of possible change.

## Notes to the annual financial statements (continued)

for the financial year ended 31 December 2019

### 16 Risk management (continued)

#### 16.5 Investment in Subsidiaries

The Company monitors the performance of its subsidiaries on an ongoing basis having regards to the environment in which they operate and the risk to which they are exposed.

### 17 Related-party transactions

#### 17.1 Identity of related parties

The Company has a related party relationship with its directors (refer page 3) and with its fellow group undertakings of the Eversholt UK Rails Group, namely:

- Eversholt UK Rails Limited
- Eversholt UK Rails (Holding) Limited
- European Rail Finance Limited
- Eversholt Investment Limited
- Eversholt Rail Leasing Limited
- Eversholt Finance Holdings Limited
- Eversholt Rail Holdings (UK) Limited (dissolved on 4 February 2020)
- Eversholt Funding plc
- Eversholt Rail Limited
- Eversholt Depot Finance Limited
- Eversholt Rail (365) Limited (prior to 19 August 2019)
- European Rail Finance (2) Limited

The Company has been informed by the former ultimate parent and controlling party, CK Hutchison Holdings Limited ("CKHH"), incorporated in the Cayman Islands, that by virtue of contractual arrangements entered into with other parties, with effect from 30 December 2019, it ceased to have a controlling interest in the Company and, as required by the applicable accounting standards, it has ceased accounting for the Company as a subsidiary from that date.

The results of the Company before 30 December 2019 are consolidated in the consolidated financial statements of CKHH. The Directors of the Company consider CKHH was the ultimate parent and controlling party prior to 30 December 2019.

In light of the above, the Directors of the Company consider the ultimate parent and controlling party from 30 December 2019 to be UK Rails S.A.R.L. incorporated in Luxembourg.

The parent undertaking of the largest and smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member is Eversholt UK Rails Limited. The immediate parent company is Eversholt Investment Limited.

Copies of the Group financial statements of Eversholt UK Rails Limited may be obtained from the following registered address:

210 Pentonville Road  
London  
N1 9JY  
United Kingdom

#### 17.2 Transactions with related parties

The Company has loan accounts with fellow group undertakings more fully described in note 10. Interest on these accounts is more fully described in note 4 and 5.

The fixed rate preference dividend payable to Eversholt Investment Limited is disclosed in note 5, related borrowings are shown in note 12.



**Notes to the annual financial statements (continued)**

for the financial year ended 31 December 2019

**18. Contingent liabilities**

There were no contingent liabilities for the Company at 31 December 2019 (2018: nil).

**19. Subsequent events**

There are no subsequent events requiring disclosure in the financial statements.