Eversholt Depot Finance Limited

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

Registered No: 05229765

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

Contents

Strategic report
for the year ended 31 December 2019

Business review

Eversholt Depot Finance Limited (the "Company"), earns both operating and finance lease income from leasing rolling stock depots. The Company forms part of the Eversholt UK Rails Group (the "Group") more fully described in note 23.

In the year the Company generated a profit of £931,000 (2018: £952,000). As at 31 December 2019 the Company had net assets of £9,959,000 (2018: £9,480,000).

Another group undertaking, Eversholt Rail Limited, provides asset management and administrative services to the Company, charging an annual management fee.

The business is funded principally by borrowing from another group undertaking and equity from its immediate parent. The Company has no employees.

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 20 of the financial statements.

Financial performance

The Company's results for the financial year are detailed in the Income statement on page 8.

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 operates 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 financial statements of Eversholt UK Rails Limited.

Approved by the Board and signed on its behalf by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

18 February 2020

Directors' report
for the year ended 31 December 2019

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

Directors

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

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 in accordance with the Companies Act 2006. 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

No significant developments are currently anticipated, but the Directors keep opportunities under regular review.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: £nil).

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.

Disclosure of information to the auditor

Each person who is a director at the date of approval of this 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. This confirmation is given pursuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Pursuant to Section 487 of the Companies Act 2006, 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
210 Pentonville Road
London
N1 9JY
United Kingdom

18 February 2020

Statement of Directors' responsibilities
for the year ended 31 December 2019

The Directors are responsible for preparing the Annual 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 elected to prepare 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 year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Company's annual financial statements were approved by the Board of Directors on 18 February 2020 and signed on their behalf by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

Independent Auditor's report to the Members of Eversholt Depot Finance Limited
for the year ended 31 December 2019

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the Company:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ("IASB"); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company which 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 25.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described 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 the UK, including the FRC's Ethical Standard, 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 are required by ISAs (UK) to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in 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.

Independent Auditor's report to the Members of Eversholt Depot Finance Limited (continued)

for the year ended 31 December 2019

Other information (continued)

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 respect of these matters.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 (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.

A further description of our 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 our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Independent Auditor's report to the Members of Eversholt Depot Finance Limited (continued)

for the year ended 31 December 2019

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

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

18th February 2020

Income statement
for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue			
Operating lease income	*22*	**2,523**	2,366
Finance lease income	*12*	**586**	518
Total revenue		**3,109**	2,884
Cost of sales	*5*	**(1,157)**	(962)
Gross profit		**1,952**	1,922
Finance expense	*6*	**(499)**	(595)
Administrative expense	7	**(226)**	(166)
Profit before tax		**1,227**	1,161
Income tax charge	9	**(296)**	(209)
Profit for the year		**931**	952

There were no discontinued or discontinuing operations during the year.

The notes on pages 12 to 26 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2019

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

Statement of financial position
as at 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	*10*	**15,396**	16,359
Right-of-use assets	*11*	**1,851**	-
Finance lease receivables	*12*	**4,419**	5,415
		21,666	21,774
Current assets			
Finance lease receivables	*12*	**997**	918
Trade and other receivables	*13*	**-**	33
		997	951
Total assets		**22,663**	22,725
Liabilities and equity			
Current liabilities			
Trade and other payables	*14*	**436**	233
Lease liabilities	*17*	**75**	-
Current tax		**581**	1,163
		1,092	1,396
Non-current liabilities			
Borrowings	*15*	**5,999**	8,139
Lease liabilities	*17*	**2,316**	-
Deferred tax	*18*	**3,297**	3,710
		11,612	11,849
Total liabilities		**12,704**	13,245
Equity			
Share capital	*19*	**5,000**	5,000
Retained earnings		**4,959**	4,480
Total equity		**9,959**	9,480
Total equity and liabilities		**22,663**	22,725

The notes on pages 12 to 26 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 18 February 2020. They were signed on its behalf by

A J Wesson
Director

Company registration number 05229765

Statement of cash flows
for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flow from operating activities			
Profit before tax		**1,227**	1,161
Adjustments for:			
- Depreciation	5	**1,157**	962
- Finance expense	6	**499**	595
Operating cash flow before changes in working capital		**2,883**	2,718
Decrease in finance lease receivables		**917**	865
Decrease in trade and other receivables		**33**	21
Increase in trade and other payables		**203**	7
Cash flow generated by operating activities		**4,036**	3,611
Payment in respect of group relief		**(1,199)**	(576)
Net cash generated by operating activities		**2,837**	3,035
Cash flow from financing activities			
Movement in intercompany loan with Eversholt Rail Limited	16	**(2,587)**	(3,173)
Repayment of lease liability	17	**(250)**	-
Net cash utilised in financing activities		**(2,837)**	(3,173)
Net movement in cash and cash equivalents		**-**	(138)
Cash and cash equivalents at the beginning of the year		**-**	138
Cash and cash equivalents at the end of the year		**-**	-

Statement of changes in equity
for the year ended 31 December 2019

	Note	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018		5,000	3,528	8,528
Total comprehensive income		-	952	952
Balance at 31 December 2018		**5,000**	**4,480**	**9,480**
Adjustment in respect of impact of adoption of IFRS 16 Leases	**4**	**-**	**(544)**	**(544)**
Income tax on adjustment in respect of impact of adoption of IFRS 16 Leases	**4**	**-**	**92**	**92**
Restated balance at 1 January 2019		**5,000**	**4,028**	**9,028**
Total comprehensive income		**-**	**931**	**931**
Balance at 31 December 2019		**5,000**	**4,959**	**9,959**

Notes to the annual financial statements
for the year ended 31 December 2019

1 General Information

Eversholt Depot Finance Limited is a private company incorporated in England and Wales and is limited by shares (see note 19). The registered office of the Company is 210 Pentonville Road, London, N1 9JY, United Kingdom.

2 Basis of Preparation

These financial statements are presented in £'000. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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 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 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 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 year, the Company adopted IFRS 16 Leases. The Company's accounting policy for lease transactions under the new standard and impacts arising from its implementation, are set out in notes 3 and 4.

During the 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; and
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

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.

- 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.

2.3 Going concern

The Company's forecasts and projections taking account of reasonably possible changes in trading performance show that the Company, having commitment of support from the Group, has adequate resources to continue in the operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing financial statements.

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 Accounting for lease transactions

The Company as lessee

The Company assesses whether a contract contains a lease at contract inception and recognises a right-of-use asset and a corresponding lease liability for all lease arrangements, except for leases whose term does not exceed one year or leases of low valued items. For such leases, the Company recognises lease payments as an operating expense on a straight-line basis.

The lease liability is initially measured at the present value of outstanding lease payments at the commencement date, discounted at the rate implicit in the lease, or the Company's incremental borrowing rate if the implicit rate is not readily available. The incremental borrowing rate reflects the rate at which funds could be borrowed for a period equal to the lease term, where borrowing is secured on the leased asset.

Lease payments comprise fixed payments. If applicable, lease payments also include:

- variable payments determined by an index or rate;
- amounts expected to be paid under a residual value guarantee;
- the exercise price of a purchase option, if reasonably certain that the option will be exercised; and
- any payment due on lease termination, if the lease term reflects such termination.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect lease payments.

The lease liability (with consequent adjustment to the right-of-use asset) is re-measured if:

- the lease term changes or there is a change in the assessment of whether a purchase option will be exercised – the liability is updated to equal the present value of the revised payments, using a revised discount rate at that time; or
- the lease payments change because of a change in the rate/index or expected residual value guarantee payment - the liability is updated to equal the present value of the revised payments, using the original discount rate. Revised discount rates are used if payment changes arise from a floating interest rate change; or
- a lease is modified and the change is not accounted for as a new lease – the liability is updated to equal the present value of the revised cashflows, using a revised discount rate.

The right-of-use asset comprises the initial measurement of the lease liability, lease payments made by lease commencement and any initial direct costs. Depreciated straight-line over the lease term, it is subsequently measured at cost less accumulated depreciation and impairment losses.

The Company as lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee. Otherwise, the lease is classified as an operating lease.

The Company enters into operating lease arrangements as lessor with respect to depot assets which are depreciated straight line over their useful economic lives to their residual value and impaired appropriately to the extent that such assets' carrying value exceed their recoverable value (see policy in relation to property, plant and equipment).

If the Company is an intermediate lessor, it accounts for the headlease and the sublease as two separate arrangements. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising under the headlease.

3 Summary of significant accounting policies (continued)

3.1 Accounting for lease transactions

Rental income from operating leases is recognised on a straight line basis over the lease term of the related lease. Initial direct costs incurred in negotiation and arranging an operating lease are added to the initial carrying amount of the lease asset and recognised straight line over the lease term.

Amounts due from lessees under a finance lease are recognised as received, at an amount equal to the Group's net investment in the leases. Finance lease income is allocated to periods so as to reflect a constant periodic rate of return on the Group's net investment in respect of the lease.

3.2 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 periods.

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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

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

3.3 Income tax

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the years in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting year.

3.4 Property, plant and equipment

In the normal course of business, property, plant and equipment are recognised at cost and are depreciated on a straight-line basis over their useful economic lives to their estimated residual value. The useful economic lives range from 23 to 35 years. Useful economic lives and carrying values are reviewed at least annually.

The depreciation charge is included in the Income statement as detailed in note 5.

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

3 Summary of significant accounting policies (continued)

3.4 Property, plant and equipment (continued)

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income statement.

At each reporting date, the Company reviews the carrying value of the depot assets to determine whether there is any indication that the assets have suffered an impairment loss. In addition, the Company will review the various contractual break options which limit the Company's residual value exposure. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. The impaired loss is recognised immediately in the Income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised immediately in the Income statement. The associated credit is recognised in the Income statement.

3.5 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:

Trade and other receivables

These are 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. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

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

Cash and cash equivalents

For the purpose of the Statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash.

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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Impairment of financial assets

Allowance for lifetime expected credit losses ("ECL") is recognised for Trade and other receivables which result from transactions within the scope of IFRS 15 and which do not contain a significant financing component, as well as finance lease receivables. Finance lease receivables are outside of scope of IFRS 9 for classification and measurement.

12 month ECL allowance is carried for other 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.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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.

3.6 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 intercompany balances are shown under the heading of "Financing activities". Such movements arise ultimately from the Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

3.7 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 year in which they are declared.

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

3 Summary of significant accounting policies (continued)

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

4 Implementation of new IFRS Standards

IFRS 16 Leases was implemented with effect from 1 January 2019.

Financial impact of the initial application of IFRS 16

The Company adopted the modified retrospective method to implement the standard and therefore has not restated comparative information. The Company has also made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The cumulative effect of adoption is reflected as an adjustment to the opening balance of retained earnings. On transition to IFRS 16, the Group has recognised right-of-use assets of £2,045,000 corresponding lease liabilities of £2,589,000 and deferred tax of £92,000. The difference between these amounts (net of £452,000) was recognised in retained earnings on 1 January 2019.

The impact upon the Income statement for the year ended 31 December 2019 is to include:

1. £194,000 in "Cost of sales". This amount relates to depreciation relating to the Company's right-of-use assets; and
2. £52,000 finance expense, relating to lease liability interest.

Under IAS 17, rentals of £172,000 (2018: 268,000) would have been charged to administrative costs.

In the Statement of cash flows, the depreciation of right-of-use assets and lease liability interest are ignored in arriving at "Operating cash flow before changes in working capital", whilst repayments of lease liabilities are included in financing activities. Under IAS17, operating lease rentals were charged in arriving at "Operating cash flow before changes in working capital".

Relative to the IAS 17 presentation therefore, the cashflow impact is an increase in "Operating cash flow before changes in working capital" of £268,000 and an increase in the "Cash flow from financing activities" of £250,000 (outflow).

The Company used an incremental borrowing rate of 2% to calculate the lease liabilities on transition and a reconciliation between operating lease commitments recognised under IAS 17 at 31 December 2018 and lease liabilities at 1 January 2019 is presented below:

	£'000
IAS 17 operating lease commitments at 31 December 2018	**2,978**
Present value of IAS 17 operating lease commitments at 31 December 2018	2,589
Lease liabilities recognised on transition to IFRS 16, at 1 January 2019	2,589

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

5 Cost of sales

	2019 £'000	2018 £'000
Depreciation	(1,157)	(962)

6 Finance expense

	2019 £'000	2018 £'000
Interest payable to Eversholt Rail Limited	(447)	(595)
Lease liability interest	(52)	-
Total	(499)	(595)

7 Administrative expense

Administrative expense includes:

	2019 £'000	2018 £'000
Management fees paid	(208)	(148)
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	(18)	(18)

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

8 Directors' emoluments

The Directors have been paid by another group undertaking, Eversholt Rail Limited. No specific charge has been made to the Company in this regard.

9 Income tax charge

	Note	2019 £'000	2018 £'000
Current tax			
UK corporation tax on current year profit		(581)	(565)
UK corporation tax on prior year profit		(36)	-
		(617)	(565)
Deferred tax			
Origination and reversal of temporary differences – Current year	*18*	342	338
Origination and reversal of temporary differences – Prior year		3	-
Change in tax rate	*18*	(24)	18
Total deferred tax		321	356
Total income tax charge		(296)	(209)

The UK corporation tax rate for the year ended 31 December 2019 and 31 December 2018 was 19%.

The deferred tax at 31 December 2019 has been calculated based on the rate of 17% substantively enacted at the reporting date. The effect of the change in the rate to 17% is included in the financial statements.

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

9 Income tax charge (continued)

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

	2019 £'000	2018 £'000
Profit before tax	**1,227**	1,161
Taxation at corporation tax rate of 19% (2018: 19%)	**(233)**	(220)
Change in tax rates	**(24)**	18
Depreciation on fixed assets ineligible for tax allowances	**(6)**	(7)
Prior year adjustment	**(33)**	-
Income tax charge	**(296)**	(209)

10 Property, plant and equipment

	Rail Depot £'000
Cost	
Balance at 1 January 2018	25,145
Additions	-
Balance at 31 December 2018	**25,145**
Additions	-
Balance at 31 December 2019	**25,145**
Depreciation	
Balance at 1 January 2018	7,824
Charge for the year	962
Balance at 31 December 2018	**8,786**
Charge for the year	**963**
Balance at 31 December 2019	**9,749**
Carrying value at 31 December 2019	**15,396**
Carrying value at 31 December 2018	16,359

11 Right-of-use of assets

	Land £'000
As at 1 January 2019 – recognised on adoption of IFRS 16	2,045
Additions	-
Depreciation charge	(194)
As at 31 December 2019	**1,851**

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

12 Finance lease receivables

	2019 £'000	2018 £'000
Gross investment in finance leases		
Amounts falling due:		
No later than one year	**1,381**	1,381
Later than one year and no later than five years	**5,065**	5,525
Later than five years	**-**	922
Gross investment in finance leases	**6,446**	7,828
Unearned finance income	**(1,030)**	(1,495)
Net investment in finance leases less provisions	**5,416**	6,333
Amortisation of finance lease receivables:		
Amounts falling due:		
No later than one year	**997**	918
Later than one year and no later than five years	**4,419**	4,515
Later than five years	**-**	900
Present value of minimum lease receivables	**5,416**	6,333
Aggregate finance lease income receivable in the year	**586**	518

The fair value of fixed rate finance lease receivables is calculated by discounting future minimum lease receivables, using equivalent current interest rates. The fair values are not considered to be significantly different from the carrying value.

The Company has entered into a finance leasing arrangement for one of the depots. This lease is due to expire in 5 years' time. Finance lease receivable balances are secured over the depot.

The interest rate inherent in the lease is fixed at the contract date for all of the lease terms. The average effective interest rate contracted is 8% (2018: 8%) per annum.

13 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**-**	33

14 Trade and other payables

	2019 £'000	2018 £'000
Rentals received in advance	**394**	157
Accruals	**42**	13
Other payables	**-**	63
	436	233

15 Borrowings

	2019 £'000	2018 £'000
Eversholt Rail Limited	**5,999**	8,139

The intercompany loan with Eversholt Rail Limited is classified as non-current as it is repayable on 4 November 2023. Borrowing entities may prepay and redraw loans until the repayment date. Interest on the loan is payable monthly at a floating rate (reflecting LIBOR plus margin), which substantially matches the rate of the Group's senior debt, plus margin (2018: Group's senior debt, plus margin).

All assets have been pledged to secure borrowings of the Group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted in the use of disposal proceeds. The assets are secured by a fixed and floating charge held by the financial institutions that have lent to Eversholt Funding plc.

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

15 Borrowings (continued)

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.

16 Reconciliation of liabilities arising from financing activities

31 December 2019	As at 31 December 2018 £'000	Non-cash finance expense £'000	Cash Flows payments £'000	As at 31 December 2019 £'000
Financing activities attributable to:				
Liabilities				
Eversholt Rail Limited	**8,139**	**447**	**(2,587)**	**5,999**

31 December 2018	As at 31 December 2017 £'000	Non-cash finance expense £'000	Cash Flows payments £'000	As at 31 December 2018 £'000
Financing activities attributable to:				
Liabilities				
Eversholt Rail Limited	10,717	595	(3,173)	8,139

17 Lease liabilities

	Land £'000
As at 1 January 2019 – recognised on adoption of IFRS 16	2,589
Additions	-
Interest charge	52
Payments	(250)
As at 31 December 2019	**2,391**

Total lease liabilities can be analysed as follows:

	2019 £'000
Current	**75**
Non Current	**2,316**
	2,391

Maturity of lease liabilities

The maturity profile of the Group's undiscounted lease liabilities at 31 December 2019 was as follows:

	2019 £'000
Within one year	**123**
In more than one year but not more than two years	123
In more than two years but not more than five years	1,105
In more than five years	1,412
Non-Current	**2,640**

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

18 Deferred tax liability

Deferred tax arises on timing differences in respect of capital allowances and IFRS 16 implementation.

	2019 £'000	2018 £'000
Balance at 1 January	**3,710**	4,066
Credit to the Income statement	**(342)**	(338)
Prior year adjustments	**(3)**	-
Effect of change in tax rate		
- Income statement	**24**	(18)
Recognition of IFRS 16 transitional adjustment through Other comprehensive income	**(92)**	-
Balance at 31 December	**3,297**	3,710

19 Share capital

	2019 £'000	2018 £'000
Authorised, allotted, called up and fully paid		
5,000,100 Ordinary shares of £1 each	**5,000**	5,000

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

20 Risk management

The Company is exposed to residual value risk and credit risk from its leasing arrangements. The Company also has exposure to the following types of risk arising from its use of financial instruments: capital risk, market risk, and liquidity risk. 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 3.8.

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.

Residual value risk

One of the key drivers of the Company's ability to generate the desired return from its assets is the management of residual value risk. This risk arises from operating lease transactions to the extent that the values recoverable from re-letting assets at the end of the current lease terms (the "residual values") differ from those projected at the inception of the leases. The Company regularly monitors the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let the depot at the end of its current lease terms. The leasing arrangements in place for the depot also have various contractual provisions which limit the Company's residual value exposure. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

There has been no change to the Company's exposure to residual value risks or the manner in which these risks are managed and measured.

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 from another group undertaking and equity from its immediate parent.

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

20 Risk management (continued)

Credit risk management (continued)

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 leasing arrangements. It arises principally from lease receivables.

The Company monitors the exposure to counterparties in relation to finance lease receivables, trade and other receivables. This includes considering the counterparty's ability to service its obligations to the Company and other creditors, having regards to past, current and future circumstances.

As part of the Company's processes for credit risk management and assessment of ECL, management as well as assessments as to whether there has been a significant increase in the credit risk since the exposure first arose or whether a financial asset is credit impaired, management takes into account the following:

- Historical credit experience of the counterparty;
- Past, current and future events and circumstances that could impinge upon the counterparty's performance and ability to perform and service its obligations as they fall due and meet its commitments as they arise. This will include assessment of actual and potential external events, as well as the Company's internal information;
- The nature of the arrangements with the counterparty and whether there is related collateral/security which can be applied;
- The existence of any parties to which the Company might have recourse in the event of a counterparty default, for example, where a counterparty's activities and related obligations (wholly or partly) might be assumed by a successor; and
- The duration of the exposure under review.

The financial assets are performing in accordance with the terms of the contractual arrangements 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 financial assets 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 trade receivables or cash and cash equivalents or finance lease receivables. 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.

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. This exposure is managed at a group level through the use of interest rate swaps. The net cost or benefit derived from the use of swaps is taken into account in determining the interest on the intercompany loan.

Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase in intercompany loan interest expense of £3,000 (2018: £9,000). The sensitivity analysis is applied to the borrowing rate and performed on the monthly balance of the relevant financial instrument and represents a reasonable approximation of possible change.

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

20 Risk management (continued)

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

Undiscounted cash flows receivable from financial assets and payable to meet financial liabilities are analysed below by their contractual due date:

31 December 2019	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
Financial assets	£'000	£'000	£'000	£'000	£'000	£'000
Amortised cost						
Finance lease receivables	5,416	6,446	-	1,381	5,065	-
	5,416	6,446	-	1,381	5,065	-
Financial liabilities						
Amortised cost						
Trade and other payables	436	436	-	436	-	-
Borrowings	5,999	5,999	-	-	5,999	-
	6,435	6,435	-	436	5,999	-
Total financial instruments	(1,019)	11	-	945	(934)	-

31 December 2018	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
Financial assets	£'000	£'000	£'000	£'000	£'000	£'000
Amortised cost						
Finance lease receivables	6,333	7,828	-	1,381	5,525	922
Trade and other receivables	33	33	-	33	-	-
	6,366	7,861	-	1,414	5,525	922
Financial liabilities						
Amortised cost						
Trade and other payables	233	233	-	233	-	-
Borrowings	8,139	8,139	-	-	8,139	-
	8,372	8,372	-	233	8,139	-
Total financial instruments	(2,006)	(511)	-	1,181	(2,614)	922

21 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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

22 Operating lease arrangements

The Company as lessor:

The Company has contracts with lessees in relation to depots. At the reporting date, the outstanding commitments for future minimum lease receipts under operating leases are as follows:

	Group	
	2019	**2018**
	£'000	**£'000**
Within one year	**2,489**	2,634
2-5 years	**7,783**	10,536
Over 5 years	**370**	3,214
	10,642	16,784
Aggregate operating lease rentals receivable in the year	**2,523**	2,366

The Company as lessee:

The Company has sub-leases of certain right-of-use assets in relation to land and has recognised income in the year of £268,000.

23 Related-party transactions

23.1 Identity of related parties

The Company has a related party relationship with its directors (refer to page 3) and with other entities in the Eversholt UK Rails Group, namely:

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2019

23 Related-party transactions (continued)

23.1 Identity of related parties (continued)

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

23.2 Transactions with related parties

The Company has loans with related parties, described in note 6. Interest on these loans is described in note 6.

The Company paid management fees of £208,000 to Eversholt Rail Limited (2018: £148,000).

24 Contingent liabilities

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

25 Subsequent events

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