

# **Eversholt Funding plc**

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

**Registered No: 07329930**

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

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## Strategic report

for the year ended 31 December 2019

### Business review

Eversholt Funding plc (the "Company") forms part of the Eversholt UK Rails Group (the "Group") more fully described in note 21. The Company was established for the sole purpose of raising debt finance for the group companies bound by the terms of the Financing Documents dated 4 November 2010 (the "Security Group").

In the year the Company generated a profit of £2,869,000 (2018: £11,429,000). As at 31 December 2019 the Company had net liabilities of £147,962,000 (2018: £128,370,000). As described in note 2.3, the Directors are satisfied that the Company, through the support of the Group, has the resources to continue in business for the foreseeable future.

The Company has no employees.

### Risk management

The Company is subject to the risk management objectives and policies of the Group. An analysis of the exposure to such risks is set out in note 18 of the financial statements.

The Company's future viability and risk management are ultimately dependent on the performance of the Group and its ability to generate cash flows from its rolling stock and other rail assets. The principal risks and uncertainties of the Group are disclosed in the accounts of Eversholt UK Rails Limited.

The other principal business risks for the Company are market, capital, liquidity and credit risk. The market risk arises from refinancing risk and exposure to interest rate fluctuations on the value of and cash flows attributable to borrowings and deposits. Refinancing risk is managed by established procedures for monitoring concentration of maturities and early negotiation of financing arrangements. The interest rate cash flow risk is managed by means of interest rate swaps which have fixed the rate of interest payable on floating rate debt.

Capital risk arises from the ability of the Company to continue as a going concern and generate attractive and predictable returns for shareholders and benefits for other stakeholders. The Company's Board of Directors actively monitors the capital structure of the Company.

Liquidity risk arises from the Company's obligations to make interest and principal repayments on its debt and derivative contracts. The day to day cash flow requirements of the Company are closely monitored.

Credit risk arises from placing cash deposits, arranging committed undrawn borrowings and entering into derivative contracts with third parties. Credit risk is managed in line with established procedures which consider credit quality of counterparties and concentration of risk.

### Financial performance

The Company's results for the financial year are detailed in the Income statement on page 15.

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.

### Section 172(1) statement

In discharging their duty to promote the interests of the Company under section 172 Companies Act 2006, the Directors of the Company have regard to a number of factors and stakeholder interests. These are described below.

The Company was formed for the sole purpose of raising debt finance for the Eversholt UK Rails Group.

## Strategic report (continued)

for the year ended 31 December 2019

### Section 172(1) statement (continued)

The Company is a wholly owned subsidiary and does not have any employees. Accordingly, the Directors do not consider the factors listed in section 172(1)(b) (interests' of the company's employees), section 172(1)(d) (the impact of the company's operations on the community and the environment) or section 172(1)(f) (need to act fairly between the members of the company) are relevant to the proper discharge of their duty under section 172.

Each of these factors are considered in relation to the Group's broader operations as explained in the section 172(1) statement within the Annual report and financial statements of Eversholt UK Rails Limited (the parent company of the Eversholt UK Rails Group) for the year ended 31 December 2019.

#### *Long term consequences of business decisions and maintaining reputation for high standards of business conduct*

The Company operates in a sector characterised by long term relationships between stakeholders, driven by a relatively small number of market participants. The Group provides rolling stock and rolling stock related services to train and freight operating companies who operate rail franchises for periods that are typically between seven and ten years. In addition, the financial instruments issued by the Company typically have long maturities. Accordingly, consideration of long term consequences are an inherent part of the Company's decision making processes. As a publicly-owned company ultimately held by an infrastructure investor, the Board considers that the interests of the Company and its ultimate owners are aligned in seeking sustainable value creation over the longer term through the Company's funding operations, promoting long term strategic decision-making.

#### *Identification of, and engagement with, stakeholder groups*

The Company recognises the importance of maintaining strong relationships with its stakeholders in order to create sustainable long term value, and the Board encourages active dialogue and transparency with all its stakeholder groups.

The Eversholt UK Rails Group has identified six main stakeholder groups which are relevant to the proper discharge of the duty of the Directors of relevant group companies under section 172(1) to promote the success of their company. These are:

- train operating companies and freight operating companies – the Eversholt UK Rails Group's customers;
- industry regulators principally the Office of Rail and Road (ORR), the Department for Transport, Transport Scotland, Transport for Wales and Transport for London (in their role providing funding and strategic direction for major rail projects), and other public bodies involved in the UK rail industry;
- the Eversholt UK Rails Group's suppliers – train manufacturing companies and other suppliers who supply and maintain rolling stock;
- the Eversholt UK Rails Group's external lenders;
- the Eversholt UK Rails Group's employees; and
- the Eversholt UK Rails Group's owners.

Given the purpose of the Company, the Board believes that two of these six stakeholder groups are relevant to the proper discharge of the duties of the Directors of the Company under section 172(1):

- the Group's external lenders; and
- the Group's owners.

Details of these groups, and the main methods that the Directors have used to engage with those stakeholders during the course of the year, is set out in the corporate governance statement within the Annual report and financial statements of Eversholt UK Rails Limited for the year ended 31 December 2019.



**Strategic report (continued)**  
for the year ended 31 December 2019

Approved by the Board and signed on its behalf:

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

**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  
LDC Securitisation Director No. 3 Limited

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 provisions of 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.

### **Risk Management**

Details of the Company's risk management are set out in the Strategic Report.

### **Fostering business relationships**

The company recognises the importance of maintaining strong relationships with its stakeholders in order to create sustainable long term value, and the Board encourages active dialogue and transparency with all its stakeholder groups. Further information is included in the Strategic report and falls within the scope of Section 172(1) statement.

### **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 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. This confirmation is given pursuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

**Directors' report (continued)**  
for the year ended 31 December 2019

**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:

A handwritten signature in black ink, consisting of a stylized 'M' and 'K' followed by a long horizontal stroke.

**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 Funding plc**  
for the year ended 31 December 2019

**Report on the audit of the financial statements**

**1. Opinion**

In our opinion the financial statements of Eversholt Funding plc (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 International Financial Reporting Standards ("IFRS"s) 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 which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows and
- the related notes 1 to 23.

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

**2. 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 Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**3. Summary of our audit approach**

Key audit matters	The key audit matter that we identified in the current year was: <ul style="list-style-type: none"><li>• Treasury transactions</li></ul>
Materiality	The materiality that we used in the current year was £2,900,000 which was determined on the basis of 2% of equity.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes to our audit approach this year. However there has been change in the key audit matter from prior year. We had the accuracy of reflecting novation of swap contracts as a key audit matter in the prior year.



**Independent Auditor's report to the Members of Eversholt Funding plc (continued)**  
for the year ended 31 December 2019

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Novation of swaps did not reoccur in the current year. The audit focus area for the current year is treasury transactions.

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**4. 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.

**5. Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

**5.1. Treasury transactions**

**Key audit matter description**

At 31 December 2019 the Company had total borrowings of £2,043.19 million (31 December 2018: £1,955.60 million). The Company mitigates the exposure to interest rate and foreign exchange rate risks with risk management activities including the use of derivatives such as variable interest rate swaps. The Company designates derivatives in hedge relationships where possible.

The valuation of the derivative portfolio requires management to make certain assumptions and judgments in particular around the valuation methodologies adopted. We have identified the accuracy and valuation of certain treasury derivatives as a key audit matter due to the level of judgement and the technical nature of determining derivative values. We have also identified certain of the hedge accounting requirements adopted for certain of the Group's derivative financial instruments as a key audit matter.

Refer additionally to notes 12 (Derivative financial instruments) and 18 (Risk management) to the financial statements for further detail on derivatives. Further refer to note 3.4 Financial instruments for summary of accounting policy, strategic report and directors' report.

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**Independent Auditor's report to the Members of Eversholt Funding plc (continued)**  
for the year ended 31 December 2019

<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of the relevant controls over the recording and valuation of derivative financial instruments and tested the relevant controls over the valuation and challenge of the estimates made.</p> <p>With the involvement of our treasury specialists we have tested a sample of the models used by management, including a challenge of the assumptions therein, to assess the appropriateness of the valuation methodology adopted and the assumptions applied. Where relevant we have obtained third party confirmations to test the completeness and accuracy of the information held within the Group's treasury management system.</p> <p>We have analyzed the hedge effectiveness testing performed by management including the assessment of forecast transactions and tested the disclosure within the financial statements.</p> <p>In the performance of our testing and with the involvement of our IFRS specialists, we have considered the requirements of <i>IFRS 9 Financial Instruments</i> to determine whether the appropriate accounting treatment has been adopted by the company.</p>
<b>Key observations</b>	<p>The results of our procedures were satisfactory and on the basis of these procedures we conclude that the accounting for derivatives, including the Group's use of hedge accounting, is appropriate.</p>

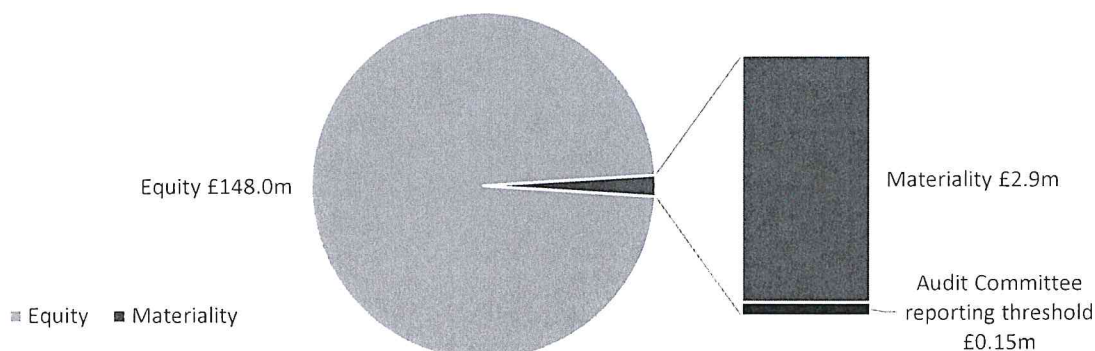
## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£2.9m (2018: £2.6m)
<b>Basis for determining materiality</b>	2% of equity (2018: 2% of equity)
<b>Rationale for the benchmark applied</b>	We believe equity is the most appropriate benchmark as it is considered to be one to the principal considerations for members of the Company in assessing its financial performance.



**Independent Auditor's report to the Members of Eversholt Funding plc (continued)**  
for the year ended 31 December 2019

**6.2. Performance materiality**

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- there have not been any significant changes in business structure and operations; and
- our experience from previous audit, which shows which has indicated a low number of corrected and uncorrected misstatements identified in prior years

**6.3. Error reporting threshold**

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £145,000 (2018: £139,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**7. An overview of the scope of our audit**

**7.1. Scoping**

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. We performed a risk assessment which factors in the size, composition and qualitative factors relating to all account balances, classes of transactions and disclosures. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

**7.2. Our consideration of the control environment**

Our risk assessment procedures includes obtaining an understanding of controls considered to be relevant to the audit. We tested controls over the treasury process and operating expenditure where control reliance was placed.

We have identified Agresso (the Group's finance system) as the key IT application relevant to the audit and is used by the company for internal and external financial reporting. Furthermore the company makes use of Reval for their treasury and risk management function. We have placed reliance on GITC's (General Information Technology Controls) on the Agresso system.

With the involvement of our IT specialists we obtained an understanding of the GITC's and tested the relevant GITC's during the year ended 31 December 2019.

**8. 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.

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.



**Independent Auditor's report to the Members of Eversholt Funding plc (continued)**  
for the year ended 31 December 2019

We have nothing to report in respect of these matters.

**9. 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.

**10. 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**11. Extent to which the audit was considered capable of detecting irregularities, including fraud**

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

**11.1. Identifying and assessing potential risks related to irregularities**

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax and valuations specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

**Independent Auditor's report to the Members of Eversholt Funding plc (continued)**  
for the year ended 31 December 2019

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's regulatory solvency requirements and environmental regulations.

**11.2. Audit response to risks identified**

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

**Report on other legal and regulatory requirements**

**12. 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.

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

**13.1. Adequacy of explanations received and accounting records**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or

**Independent Auditor's report to the Members of Eversholt Funding plc (continued)**  
for the year ended 31 December 2019

- 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.

We have nothing to report in respect of these matters.

**13.2. Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

**14. Other matters**

**14.1. Auditor tenure**

Following the recommendation of the audit committee, we were appointed by the board of directors at the AGM on 19 February 2016 to audit the financial statements for the year ending 31 December 2015. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 December 2015 to 31 December 2019.

**14.2. Consistency of the audit report with the additional report to the audit committee**

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

**15. 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

18 February 2020

## Income statement

for the year ended 31 December 2019

	<i>Note</i>	2019 £'000	2018 £'000
<b>Revenue</b>			
Fee income	4.1	1,439	1,113
Finance income	4.2	115,770	114,228
<b>Total revenue</b>		<b>117,209</b>	<b>115,341</b>
Finance expense	5	(118,331)	(116,143)
Net fair value gain on derivative financial instruments	12	5,128	14,933
<b>Gross profit</b>		<b>4,006</b>	<b>14,131</b>
Administrative expense	6	(590)	(390)
<b>Profit before tax</b>		<b>3,416</b>	<b>13,741</b>
Income tax charge	8	(547)	(2,312)
<b>Profit for the year</b>		<b>2,869</b>	<b>11,429</b>

There were no discontinued or discontinuing operations during the year.

The notes on pages 19 to 37 form an integral part of these financial statements.

## Statement of comprehensive income

for the year ended 31 December 2019

	<i>Note</i>	2019 £'000	2018 £'000
Profit for the year		2,869	11,429
<b>Other comprehensive (expense)/income</b>			
Effective portion of changes in fair value of cash flow hedges	12	(28,350)	3,788
Realised gain on cash flow hedges to fellow group companies	12	579	893
Realised gain on cash flow hedges to Income statement	12	710	-
Tax credit/(charge) on changes in effective portion of changes in fair value of cash flow hedges	10	4,600	(796)
		<b>(22,461)</b>	<b>3,885</b>
<b>Total comprehensive (expense)/income for the year</b>		<b>(19,592)</b>	<b>15,314</b>

Effective portion of changes in fair value cash flow hedges, together with related tax effects, may be reclassified to the Income statement in future years.



# Statement of financial position

as at 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Deferred tax	10	27,415	23,687
Derivative financial instruments	12	21,821	1,779
Amounts owed by group undertakings	11	1,640,000	1,940,000
		<u>1,689,236</u>	<u>1,965,466</u>
<b>Current assets</b>			
Amounts owed by group undertakings	11	407,249	21,266
Current tax		325	535
Cash and cash equivalents	13	1,461	645
Trade and other receivables		10	-
		<u>409,045</u>	<u>22,446</u>
<b>Total assets</b>		<u>2,098,281</u>	<u>1,987,912</u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables	14	22	47
Derivative financial instruments	12	286	-
Borrowings	15	407,579	20,620
		<u>407,887</u>	<u>20,667</u>
<b>Non-current liabilities</b>			
Borrowings	15	1,635,610	1,934,979
Amounts owed to group undertakings	11	31,533	32,401
Derivative financial instruments	12	171,213	128,235
		<u>1,838,356</u>	<u>2,095,615</u>
<b>Total liabilities</b>		<u>2,246,243</u>	<u>2,116,282</u>
<b>Equity</b>			
Share capital	17	50	50
Accumulated deficit		(104,190)	(107,059)
Hedging reserve	12	(43,822)	(21,361)
<b>Total equity</b>		<u>(147,962)</u>	<u>(128,370)</u>
<b>Total equity and liabilities</b>		<u>2,098,281</u>	<u>1,987,912</u>

The notes on pages 19 to 37 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: 07329930

**Statement of cash flows**

for the year ended 31 December 2019

	<i>Note</i>	2019 £'000	2018 £'000
<b>Cash flow from operating activities</b>			
Profit before tax		3,416	13,741
Adjustments for:			
- Finance expense	5	118,331	116,143
- Finance income	4.2	(115,770)	(114,228)
- Amortisation of capitalised finance charges		646	370
- Capitalisation of finance charges		-	(134)
- Fair value adjustment on derivative financial instruments	12	(5,128)	(14,933)
<b>Operating cash flow before changes in working capital</b>		<b>1,495</b>	<b>959</b>
(Increase)/decrease in trade and other receivables		(10)	67
Decrease in trade and other payables	14	(25)	(186)
<b>Cash flow generated by operating activities</b>		<b>1,460</b>	<b>840</b>
Receipt/(payment) in respect of group relief		535	(1,916)
<b>Net cash generated/(utilised) by operating activities</b>		<b>1,995</b>	<b>(1,076)</b>
<b>Cash flow from investing activities</b>			
Amounts borrowed by group entities	16	(85,000)	-
Interest received on loan to Eversholt Rail Limited	16	114,787	114,113
<b>Net cash generated by investing activities</b>		<b>29,787</b>	<b>114,113</b>
<b>Cash flow from financing activities</b>			
Movement in intercompany loan from Eversholt Rail Limited	16	(2,128)	1,217
External borrowing raised	16	85,000	-
Interest paid on bonds	16	(98,660)	(98,375)
Interest paid on bank loans	16	(399)	-
Interest paid on swaps	16	(14,772)	(15,735)
Financing fees paid		(7)	-
<b>Net cash utilised by financing activities</b>		<b>(30,966)</b>	<b>(112,893)</b>
Net movement in cash and cash equivalents		816	144
Cash and cash equivalents at the beginning of the year		645	501
<b>Cash and cash equivalents at the end of the year</b>	13	<b>1,461</b>	<b>645</b>

**Statement of changes in equity**

for the year ended 31 December 2019

	Note	Share capital £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
<b>Balance at 1 January 2018</b>		<b>50</b>	<b>(25,246)</b>	<b>(118,488)</b>	<b>(143,684)</b>
Profit for the year		-	-	11,429	11,429
Effective portion of changes in fair value of cash flow hedges	12	-	3,788	-	3,788
Realised gain on cash flow hedge released to Income statement	12	-	893	-	893
Tax charge on changes in effective portion of changes in fair value of cash flow hedges	10	-	(796)	-	(796)
<b>Total comprehensive income</b>		<b>-</b>	<b>3,885</b>	<b>11,429</b>	<b>15,314</b>
<b>Balance at 31 December 2018</b>		<b>50</b>	<b>(21,361)</b>	<b>(107,059)</b>	<b>(128,370)</b>
Profit for the year		-	-	2,869	2,869
Effective portion of changes in fair value of cash flow hedges	12	-	(28,350)	-	(28,350)
Realised gain on cash flow hedge released to fellow group companies	12	-	579	-	579
Realised gain on cash flow hedge released to Income statement	12	-	710	-	710
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	10	-	4,600	-	4,600
<b>Total comprehensive (expense)/income</b>		<b>-</b>	<b>(22,461)</b>	<b>2,869</b>	<b>(19,592)</b>
<b>Balance at 31 December 2019</b>		<b>50</b>	<b>(43,822)</b>	<b>(104,190)</b>	<b>(147,962)</b>

## Notes to the annual financial statements

for the year ended 31 December 2019

### 1 General Information

Eversholt Funding plc is a public company incorporated in England and Wales and is limited by shares (see note 17). 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 Eversholt Funding plc have been prepared on the historical cost basis except for derivatives financial instruments measured at fair value. 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 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.

The Company also adopted early the Amendments to IFRS 9, IAS 39 and IFRS 7 in relation to hedge accounting impacts of interest rate benchmark reform. There is no impact on the Company other than additional disclosure set out under "Approach to hedging" (note 18) and an update to the Company's hedge accounting policy (note 3.4).

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 IAS 1 and IAS 8: Definition of Material; and
- Amendments to References to the Conceptual Framework in IFRS Standards.

#### 2.3 Going concern

The accumulated losses being greater than the called up share capital gives rise to there being an excess of liabilities over assets. The financial statements have been assessed in conjunction with the Group as its viability is dependent upon the ability of group companies to provide funds for the Company when required. As a result and having made appropriate enquiries, reviewed forecasts and having the commitment of support from the parent, the Directors consider it reasonable to assume that the Company has adequate resources to continue for the foreseeable future and on this basis the accounts have been prepared on a going concern basis.



## Notes to the annual financial statements (continued)

for the year ended 31 December 2019

### 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 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.

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

#### 3.2 Fees and other income

Income is recognised on satisfaction of the performance obligation in relation to the service required by the customer and when control of that service is passed to the customer. Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in "Finance income".

#### 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 Company 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. Deferred tax assets and liabilities are offset if, and only if:

- (a) there is a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income tax levied by the same taxation authority on either:
  - (i) the same taxable entity; or

## Notes to the annual financial statements (continued)

for the year ended 31 December 2019

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

#### 3.3 Income tax (continued)

- (ii) different taxable entities that intended to either settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

#### 3.4 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 undertakings and trade and other receivables

These comprise amounts that 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 a three months' maturity from the date of acquisition and include cash.

##### Financial liabilities

Financial liabilities are classified as either financial liabilities at "fair value through profit or loss" or "other" financial liabilities.

Other than derivative 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, other than derivatives 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

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.

Where required, 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.

## Notes to the annual financial statements (continued)

for the year ended 31 December 2019

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

#### 3.4 Financial instruments (continued)

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.

#### Derivatives and hedge accounting

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate fluctuations.

Derivative financial instruments are recognised at fair value. Where derivatives do not qualify for hedge accounting the gain or loss on remeasurement to fair value is recognised immediately in the Income statement.

However, where derivatives qualify for hedge accounting, the Company recognises the effective part of any gain or loss on the derivative financial instrument in Other comprehensive income, which is accounted for in the Hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income statement. The effective part of any gain/loss is the lower of:

- (a) the cumulative gain or loss on the hedging instrument from hedge inception; and
- (b) the cumulative gain or loss in the fair value of hedged item from hedge inception.

When the hedging relationship ends the hedging gain or loss recognised in Other comprehensive income is reclassified to the Income statement when the hedged item is recognised in the Income statement. When the hedged item relates to future funding costs and the hedging relationship ends, the hedging gain or loss recognised in Other comprehensive income is amortised to the Income statement over the life of the hedged item. If the hedging instrument is terminated, related amounts remain in the hedging reserve provided that the hedged future cashflows are still expected to occur.

Movements in deferred tax relating to the effective portion of changes in fair value of derivatives qualifying for hedge accounting are recognised in Other comprehensive income and accumulated in the Hedging reserve.

Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

#### Interest rate benchmark reform

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. The EU endorsed the amendments on 15 January 2020.

These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are relevant to the Company as it applies hedge accounting to its future interest rate exposures. The application of the amendments impacts the Company's accounting in the following ways:

## Notes to the annual financial statements (continued)

for the year ended 31 December 2019

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

#### 3.4 Financial instruments (continued)

The Company has highly probable future fixed funding costs, which it cash flow hedges using GBP LIBOR interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

The Company will retain the cumulative gain or loss in the hedge reserve for designated hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Company consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The Company has chosen to early apply the amendments to IFRS 9 for the reporting period ending 31 December 2019, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Company to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

#### 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. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy are recognised at the end of the reporting year during which the change occurred.

#### 3.5 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 "Cash flow from operating activities", movements in amounts owed by/to group undertakings are shown under the heading of "Cash flow from investing activities" and "Cash flow from financing activities" respectively.



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

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

**3.6 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.

**3.7 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 Revenue**

**4.1 Fee income**

	2019 £'000	2018 £'000
Expenses recharged to Eversholt Rail Limited	591	390
Funding services fees charged to Eversholt Rail Limited	15	15
Transaction fees charged to Eversholt Rail Leasing Limited	833	708
	<u>1,439</u>	<u>1,113</u>

**4.2 Finance income**

	2019 £'000	2018 £'000
Interest received from Eversholt Rail Limited	115,770	114,228
	<u>115,770</u>	<u>114,228</u>

Finance income represents interest received on amounts due from Eversholt Rail Limited carried at amortised cost and bank interest on cash and cash equivalents carried at amortised cost.

**5 Finance expense**

	2019 £'000	2018 £'000
Interest payable on bank loans	(444)	-
Interest payable on bonds	(98,531)	(98,391)
Fees payable	(7)	-
Interest payable to Eversholt Rail Limited	(1,839)	(1,918)
Finance expense in relation to financial liabilities carried at amortised cost	<u>(100,821)</u>	<u>(100,309)</u>
Transfer from hedging reserve	(710)	-
Interest payable on derivative financial instruments	(16,800)	(15,834)
<b>Total</b>	<u>(118,331)</u>	<u>(116,143)</u>

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

for the year ended 31 December 2019

**6 Administrative expense**

Administrative expense includes:

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	(58)	(61)

The Company has no employees and hence no staff costs.

**7 Directors' emoluments****Non-executive directors**

	2019 £'000	2018 £'000
Directors' fees	(23)	(23)

The charge for three of the Directors' services has been borne by another group company, Eversholt Rail Limited. The fees, above, represent the charge for LDC Securitisation Director No. 3 Limited's corporate director services and have been borne by the Company and are included in administrative expense.

**8 Income tax charge**

	<i>Note</i>	2019 £'000	2018 £'000
<b>Current tax</b>			
UK Corporation tax on current year profit		325	226
<b>Deferred tax</b>			
Origination and reversal of temporary differences	10	(974)	(2,837)
Change in tax rates	10	102	299
<b>Income tax charge</b>		(547)	(2,312)

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

Deferred tax as at 31 December 2019 has been calculated based on the rate of 17%. The effect of the change in the rate to 17% is included in the financial statements.

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

	2019 £'000	2018 £'000
Profit before tax	3,416	13,741
Taxation at corporation tax rate of 19% (2018: 19%)	(649)	(2,611)
Change in tax rates	102	299
<b>Income tax charge</b>	(547)	(2,312)

**9 Dividends**

For the year ended 31 December 2019 no dividend has been paid or declared (2018: £nil).

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

for the year ended 31 December 2019

**10 Deferred tax asset**

Deferred tax assets and liabilities are offset where the relevant criteria are met (see note 3.3). Deferred tax arises on timing differences created by unrealised changes in the fair value of derivative financial instruments.

	2019 £'000	2018 £'000
<b>Balance at 1 January</b>	<b>23,687</b>	27,021
Charge to Income statement	(974)	(2,837)
Credit/(charge) to other comprehensive income	4,600	(796)
Effect of change in tax rate:		
- Income statement	102	299
<b>Balance at 31 December</b>	<b>27,415</b>	23,687

The deferred tax asset is considered recoverable on the basis that there will be future taxable profits in other group entities against which the deductible temporary differences will be utilised.

**11 Amounts owed by/to group undertakings**

	2019 £'000	2018 £'000
<b>Current assets</b>		
Intercompany accrued interest	22,249	21,266
Eversholt Rail Limited	385,000	-
	<u>407,249</u>	<u>21,266</u>
<b>Non-current assets</b>		
Eversholt Rail Limited	1,640,000	1,940,000
	<u>2,047,249</u>	<u>1,961,266</u>

The terms of this loan mirror the terms of the Company's external debt described in note 15.

	2019 £'000	2018 £'000
<b>Non-current liabilities</b>		
Eversholt Rail Limited – intercompany loan	31,533	32,401

The intercompany loan with Eversholt Rail Limited is classified as non-current as it is repayable on or before 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, which substantially matches the rate of the Group's senior debt, plus margin (2018: Group's senior debt, plus margin).

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

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

for the year ended 31 December 2019

**12 Derivative financial instruments****31 December 2019**

	Notional Amount	Fair Value Amount	Change in fair value used for calculating hedge ineffectiveness
	£'000	£'000	£'000
<b>Non-current assets</b>			
Interest rate swap contracts	<u>292,010</u>	<u>21,821</u>	<u>-</u>
<b>Current liabilities</b>			
Interest rate swap contracts	<u>300,000</u>	<u>(286)</u>	<u>-</u>
<b>Non-current liabilities</b>			
Interest rate swap contracts	539,507	(121,597)	-
Interest rate swap contracts – hedge accounted	<u>300,000</u>	<u>(49,616)</u>	<u>(29,304)</u>
	<u>839,507</u>	<u>(171,213)</u>	<u>(29,304)</u>
<b>Total derivative financial instruments</b>	<u>1,431,517</u>	<u>(149,678)</u>	<u>(29,304)</u>

**31 December 2018**

	Notional Amount	Fair Value Amount	Change in fair value used for calculating hedge ineffectiveness
	£'000	£'000	£'000
<b>Non-current assets</b>			
Interest rate swap contracts	<u>46,000</u>	<u>1,779</u>	<u>-</u>
<b>Non-current liabilities</b>			
Interest rate swap contracts	724,895	(107,923)	-
Interest rate swap contracts – hedge accounted	<u>300,000</u>	<u>(20,312)</u>	<u>3,602</u>
	<u>1,024,895</u>	<u>(128,235)</u>	<u>3,602</u>
<b>Total derivative financial instruments</b>	<u>1,070,895</u>	<u>(126,456)</u>	<u>3,602</u>

The fair value of derivative financial instruments is based on market rates on 31 December 2019.

The Company's swap contracts that are included in a hedge accounting relationship, are used to manage its overall hedging ratio.

The increase in notional principal in 2019 reflects contracted notional profiles associated with swaps entered into for the pre-funding of new build rolling stock capital expenditure.

As at 31 December 2019, the company's hedge accounted swaps were deemed to be highly effective and the fair value liability associated to these interest rate swaps was £49,616,000 (31 December 2018: £20,312,000).



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

for the year ended 31 December 2019

**12 Derivative financial instruments (continued)**

Hedge ineffectiveness loss of £954,000 (2018: £186,000 loss) comprised the difference between the change in the fair value of the:

- hedged item used as a basis of recognising hedge ineffectiveness gain of £28,350,000 (2018: £3,788,000 gain); and
- interest rate swaps used as a basis of recognising hedge ineffectiveness of a loss of £29,304,000 (2018: £3,602,000 gain).

Hedge ineffectiveness can be attributed to where actual funding profiles were different to those originally expected.

The hedging instruments are expected to mature with the following profile:

Maturity	2019 Notional value £'000	2018 Notional value £'000
Within 1 year	300,000	-
1 to 5 years	-	-
More than 5 years	1,131,517	1,070,895

Amounts affecting the statement of comprehensive income and financial position, are as follows:

**Movement of fair value in Derivative financial instruments**

	Not hedge accounted £'000	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
<b>Balance as at 1 January 2019</b>	(106,144)	(20,312)	-	(126,456)
Unrealised (loss)/gain through the Income statement				
- Ineffective	-	(954)	-	(954)
- Other	6,082	-	-	6,082
	<u>6,082</u>	<u>(954)</u>	<u>-</u>	<u>5,128</u>
Unrealised loss through Other comprehensive income	-	(28,350)	-	(28,350)
<b>Balance as at 31 December 2019</b>	<u>(100,062)</u>	<u>(49,616)</u>	<u>-</u>	<u>(149,678)</u>
<b>Balance as at 1 January 2018</b>	(121,263)	(23,914)	-	(145,177)
Unrealised (loss)/gain through the Income statement				
- Ineffective	-	(186)	-	(186)
- Other	15,119	-	-	15,119
	<u>15,119</u>	<u>(186)</u>	<u>-</u>	<u>14,933</u>
Unrealised gain through Other comprehensive income	-	3,788	-	3,788
<b>Balance as at 31 December 2018</b>	<u>(106,144)</u>	<u>(20,312)</u>	<u>-</u>	<u>(126,456)</u>

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

for the year ended 31 December 2019

**12 Derivative financial instruments (continued)****Movement in Hedging reserve**

	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
<b>Balance as at 1 January 2019</b>	<b>16,418</b>	<b>4,943</b>	<b>21,361</b>
Unrealised loss through other comprehensive income	28,350	-	28,350
Realised gain on cash flow hedges to fellow group undertaking	-	(579)	(579)
Release to Income statement	-	(710)	(710)
Income tax on other comprehensive income	(4,820)	220	(4,600)
<b>Balance as at 31 December 2019</b>	<b>39,948</b>	<b>3,874</b>	<b>43,822</b>
<b>Balance as at 1 January 2018</b>	<b>19,562</b>	<b>5,684</b>	<b>25,246</b>
Unrealised gain through other comprehensive income	(3,788)	-	(3,788)
Realised gain on cash flow hedges to fellow group undertaking	-	(893)	(893)
Income tax on other comprehensive income	644	152	796
<b>Balance as at 31 December 2018</b>	<b>16,418</b>	<b>4,943</b>	<b>21,361</b>

Cumulative unrealised losses of £3,874,000 (2018: £4,943,000) relating to Interest rate swaps terminated in prior years remain in the hedging reserve and will be recognised in the Income statement in future years.

At 31 December 2019 the Company held interest rate swaps with a fair value liability of £100,062,000 (2018: £106,144,000 liability) which were not designated in hedging relationships for accounting purposes.

Certain bond agreements include contractual obligations to settle cross-currency derivative financial instruments, that the lender has entered into pursuant to the bonds, in the event that the Group either defaults on or repays the bonds before maturity. The embedded derivatives resulting from such arrangements have been valued at £nil (2018: £nil) on the basis that the Group is not in default and is not forecast to be in default or repay bonds early.

See note 18.4 for details of interest rate risk management.

**Replacement of LIBOR as an interest rate benchmark**

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.

**13 Cash and cash equivalents**

Cash and cash equivalents are analysed as:

	2019 £'000	2018 £'000
Bank balances	1,461	645

£500,000 of cash and cash equivalents is restricted cash in line with the terms of an agreement with the security trustee for the Company's secured creditors.

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

for the year ended 31 December 2019

**14 Trade and other payables**

	2019 £'000	2018 £'000
Fees and other payables accrued	<u>22</u>	<u>47</u>

**15 Borrowings**

	2019 £'000	2018 £'000
<b>Current</b>		
Interest accrued	23,210	21,266
Bank loan	85,000	-
Bonds	300,000	-
Transaction costs	(631)	(646)
	<u>407,579</u>	<u>20,620</u>
<b>Non-current</b>		
Bonds	1,640,000	1,940,000
Transaction costs	(4,390)	(5,021)
	<u>1,635,610</u>	<u>1,934,979</u>
	<u>2,043,189</u>	<u>1,955,599</u>

**Bond principal amount**

	Interest rate Semi-annual coupon	Due date
£300m	5.831%	2020
£400m	6.359%	2025
£400m	6.697%	2021-2035
£100m	LIBOR+margin	2028-2036
£90m	Fixed rate	2030
£50m	Fixed rate	2028-2036
£100m	Fixed rate	2026-2031
£100m	Fixed rate	2037
£400m	3.529%	2034-2042

None of the bonds are puttable.

The Security Group finances itself using a Common Documents platform. This means that all covenants on the performance and management of the Security Group apply to all Senior lenders. Failure to comply with these may result in Bank loans and Bonds being repayable on demand. The Security Group was in compliance with the covenants during 2019.

The Security group has granted a fixed and floating charge over all of its assets to secure this financing.

Fees incurred on raising finance have been capitalised and are being amortised using the effective interest method over the term of the borrowings.

**Maturity of borrowings**

The maturity profile of the carrying amount of the Company's non-current borrowings at 31 December 2019 was as follows:

	2019 £'000	2018 £'000
In more than one year but not more than two years	14,286	300,000
In more than two years but not more than five years	85,714	71,429
In more than five years	<u>1,540,000</u>	<u>1,568,571</u>
	<u>1,640,000</u>	<u>1,940,000</u>

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

for the year ended 31 December 2019

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

31 December 2019

	As at 31 December 2018 £'000	Non-cash finance (income)/ expense £'000	Cash Flows receipts/ (payments) £'000	As at 31 December 2019 £'000
<b>Financing activities attributable to:</b>				
<b>Liabilities</b>				
Eversholt Rail Limited	32,401	1,260	(2,128)	31,533
Bond interest accrued	20,427	98,531	(98,660)	20,298
Swap interest accrued	839	16,800	(14,772)	2,867
Bank loan interest accrued	-	444	(399)	45
Bonds	1,940,000	-	-	1,940,000
Bank loans	-	-	85,000	85,000
	<u>1,993,667</u>	<u>117,035</u>	<u>(30,959)</u>	<u>2,079,743</u>
<b>Assets</b>				
Eversholt Rail Limited interest accrued	(21,266)	(115,770)	114,787	(22,249)
Eversholt Rail Limited loan	<u>(1,940,000)</u>	<u>-</u>	<u>(85,000)</u>	<u>(2,025,000)</u>
	<u>(1,961,266)</u>	<u>(115,770)</u>	<u>29,787</u>	<u>(2,047,249)</u>

31 December 2018

	As at 31 December 2017 £'000	Non-cash finance (income)/ expense £'000	Cash Flows receipts/ (payments) £'000	As at 31 December 2018 £'000
<b>Financing activities attributable to:</b>				
<b>Liabilities</b>				
Eversholt Rail Limited	30,159	1,025	1,217	32,401
Bond interest accrued	20,411	98,391	(98,375)	20,427
Swap interest accrued	740	15,834	(15,735)	839
Bonds	1,940,000	-	-	1,940,000
	<u>1,991,310</u>	<u>115,250</u>	<u>(112,893)</u>	<u>1,993,667</u>
<b>Assets</b>				
Eversholt Rail Limited interest accrued	(21,151)	(114,228)	114,113	(21,266)
Eversholt Rail Limited loan	<u>(1,940,000)</u>	<u>-</u>	<u>-</u>	<u>(1,940,000)</u>
	<u>(1,961,151)</u>	<u>(114,228)</u>	<u>114,113</u>	<u>(1,961,266)</u>

Non-cash finance expense includes amounts of £579,000 (2018: £nil) in relation to realised gains on cash flow hedges transferred from hedging reserve.

**17 Share capital**

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

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

## Notes to the annual financial statements (continued)

for the year ended 31 December 2019

### 18 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. 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 3.7.

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.

#### 18.1 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 comprises principally of borrowings from Senior lenders and equity from its immediate parent.

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

#### 18.2 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 lending arrangements and derivative contracts.

The Company monitors the exposure to other group undertakings, cash and cash equivalents balances and trade and other receivables 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.

As part of the Company's processes for credit risk management and assessment of ECL, as well as assessment 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 Group'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 Group 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 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 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 amounts owed by group undertakings, or cash and cash equivalents, nor trade and other 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.



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

for the year ended 31 December 2019

**18 Risk management (continued)****18.3 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 the Company to borrow under a £600m revolving credit facility which matures on 4 November 2023.

Undiscounted cash flows in respect of the intercompany loan from 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 on the Company assets and liabilities are analysed below by their contractual due date, including estimated interest cash flows where appropriate:

	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>						
Fair value through profit or loss						
Derivative financial instruments	21,821	7,135	-	1,824	3,731	1,580
Amortised cost						
Amounts owed by group undertakings	2,047,249	3,136,324	-	506,479	417,685	2,212,160
Cash and cash equivalents	1,461	1,461	961	-	-	500
Trade and other receivables	10	10	-	10	-	-
<b>Total financial assets</b>	<b>2,070,541</b>	<b>3,144,930</b>	<b>961</b>	<b>508,313</b>	<b>421,416</b>	<b>2,214,240</b>
<b>Financial liabilities</b>						
Fair value through profit or loss						
Derivative financial instruments	171,499	192,442	-	21,143	67,321	103,978
Amortised cost						
Borrowings	2,048,210	3,136,324	-	506,479	417,685	2,212,160
Intercompany loans	31,533	31,533	-	-	31,533	-
Trade and other payables	22	22	-	22	-	-
<b>Total financial liabilities</b>	<b>2,251,264</b>	<b>3,360,321</b>	<b>-</b>	<b>527,644</b>	<b>516,539</b>	<b>2,316,138</b>
<b>Total financial Instruments</b>	<b>(180,723)</b>	<b>(215,391)</b>	<b>961</b>	<b>(19,331)</b>	<b>(95,123)</b>	<b>(101,898)</b>
	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 2018</b>						
<b>Financial assets</b>						
Fair value through profit or loss						
Derivative financial instruments	1,779	8,284	-	2,083	4,369	1,832
Amortised cost						
Amounts owed by group undertakings	1,961,266	2,550,086	-	97,040	345,838	2,107,208
Cash and cash equivalents	645	645	145	-	-	500
Trade and other receivables	-	-	-	-	-	-
<b>Total financial assets</b>	<b>1,963,690</b>	<b>2,559,015</b>	<b>145</b>	<b>99,123</b>	<b>350,207</b>	<b>2,109,540</b>

## Notes to the annual financial statements (continued)

for the year ended 31 December 2019

### 18 Risk management (continued)

#### 18.3 Liquidity risk management (continued)

31 December 2018 (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>Financial liabilities</b>						
Fair value through profit or loss						
Derivative financial instruments	128,235	144,452	-	16,932	59,317	68,203
Amortised cost						
Borrowings	1,961,266	2,550,086	-	97,040	345,838	2,107,208
Intercompany loans	32,401	32,401	-	-	32,401	-
Trade and other payables	47	47	-	47	-	-
<b>Total financial liabilities</b>	<b>2,121,949</b>	<b>2,726,986</b>	<b>-</b>	<b>114,019</b>	<b>437,556</b>	<b>2,175,411</b>
<b>Total financial Instruments</b>	<b>(158,259)</b>	<b>(167,971)</b>	<b>145</b>	<b>(14,896)</b>	<b>(87,349)</b>	<b>(65,871)</b>

Cash and cash equivalents (recoverable after 5 years) of £500,000 (2018: £500,000) is restricted cash in line with the terms of an agreement with the security trustee for the Group's secured creditors.

#### 18.4 Market risk management

##### Interest rate risk management

The Company is exposed to interest rate risk because it borrows and deposits funds at fixed and floating interest rates. The cash flow risk is managed by the Company to maintain an appropriate mix between fixed and floating rate borrowings through the use of interest rate swaps.

	2019 £'000	2018 £'000
Financial liabilities – Floating Rate (LIBOR plus margin)	(85,000)	-
Financial liabilities – Fixed Rate	(1,840,000)	(1,840,000)
Financial liabilities – Fixed by interest rate hedging	(100,000)	(100,000)
Financial liabilities – intercompany loan	(31,533)	(32,401)
Financial assets – Floating Rate (LIBOR plus margin)	85,000	-
Financial assets – Fixed Rate	1,840,000	1,840,000
Financial assets – Fixed by interest rate hedging	100,000	100,000

##### Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in a decrease in interest expense of £487,000 (2018: £820,000) offset by a decrease in intercompany term lending interest receipt, an increase in intercompany interest expense of £9,000 (2018: £31,000) and an increase in cash deposit interest received of £3,000 (2018: £3,000). This represents a reasonable approximation of possible change.

A 50 basis points upwards parallel shift in the yield curve would have led to a decrease in fair value liability and a net fair value gain of £6,830,000 (2018: £9,192,000) on derivative financial instruments.

##### Foreign exchange risk

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

##### Approach to hedging

Consistent with prior years, the Company uses interest rate swaps to manage its interest rate risk.

The Company borrows funds that carry a floating rate of interest. In addition, the Company seeks to fix the interest rate payable on future borrowings required to fund committed future and actual capital expenditure incurred by fellow group undertakings. Hence, the Company hedges the variability in cashflows inherent in highly probable forecast fixed funding costs. Interest rate swaps are used to manage interest rates exposure by swapping variable for fixed payments of interest on a notional amount of funding. Swaps are established in relation to specific funding.

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

for the year ended 31 December 2019

**18 Risk management (continued)****18.4 Market risk management (continued)**

Where required, interest rate swaps are designated as part of hedging relationships upon their inception. The Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting changes in cash flows arising from the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as resulting from the principal of the hedge item, actually hedged, and the principal of the hedging instrument.

Once established, hedging arrangements will generally continue to the maturity of related borrowings. As such, there is little, if any, need to reset hedging relationships. In general, it is expected that any hedge ineffectiveness will be minimal given the basis upon which hedging is established and the extent to which critical terms match.

**Interest rate benchmark reform:**

The Company is exposed to GBP LIBOR within its hedge accounting relationships and this is subject to interest rate benchmark reform. As listed in note 12, the hedged items are highly probable future fixed funding costs, relating to borrowings required to fund committed future and actual capital expenditure incurred by fellow group undertakings.

The Company has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including, for example, the Financial Conduct Authority (FCA)) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to GBP LIBOR.

In response to the announcements, the Company is establishing a transition workstream to consider relevant aspects, including: risk management, tax, treasury, legal, accounting and systems. The activity will be under the governance of the Chief Financial Officer who reports to the Board.

The Company also has borrowings that have GBP LIBOR as a reference rate, but these are not part of hedge accounting relationships.

**19 Financial Instruments**

The fair values together with the carrying amounts of the financial assets and financial liabilities are as follows:

31 December 2019	Note	Carrying amount	Fair value		
		£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Financial assets</b>					
Fair value through profit or loss					
Derivative financial instruments	12	21,821		21,821	
Amortised cost					
Amounts owed by group undertakings					
Intercompany loan receivables	11	1,500,000		1,745,034	
Intercompany loan receivables (fixed)	11	340,000		372,317	
Intercompany loan receivables (other)	11	207,249			
Cash and cash equivalents	13	1,461			
Trade and other receivables		10			
<b>Total financial assets</b>		<b>2,070,541</b>			



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

**19 Financial Instruments (continued)**

31 December 2019	Note	Carrying amount £'000	Level 1 £'000	Fair value Level 2 £'000	Level 3 £'000
<b>Financial liabilities</b>					
Fair value through profit or loss					
Derivative financial instruments	12	171,499		171,499	
Amortised cost					
Publicly traded bonds	15	1,500,000	1,745,034		
Fixed rate borrowings	15	340,000		372,317	
Other borrowings	15	208,210			
Intercompany loan	11	31,533			
Trade and other payables	14	22			
<b>Total financial liabilities</b>		<b>2,251,264</b>			
<b>Total financial instruments</b>		<b>(180,723)</b>			
<b>31 December 2018</b>					
	Note	Carrying amount £'000	Level 1 £'000	Fair value Level 2 £'000	Level 3 £'000
<b>Financial assets</b>					
Fair value through profit or loss					
Derivative financial instruments	12	1,779		1,779	
Amortised cost					
Amounts owed by group undertakings					
Intercompany loan receivables	11	1,500,000		1,688,189	
Intercompany loan receivables (fixed)	11	340,000		343,153	
Intercompany loan receivables (other)	11	121,266			
Cash and cash equivalents	13	645			
Trade and other receivables		-			
<b>Total financial assets</b>		<b>1,963,690</b>			
<b>Financial liabilities</b>					
Fair value through profit or loss					
Derivative financial instruments	12	128,235		128,235	
Amortised cost					
Publicly traded bonds	15	1,500,000	1,688,189		
Fixed rate borrowings	15	340,000		343,153	
Other borrowings	15	121,266			
Intercompany loan	11	32,401			
Trade and other payables	14	47			
<b>Total financial liabilities</b>		<b>2,121,949</b>			
<b>Total financial instruments</b>		<b>(158,259)</b>			

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

There are no other material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2019 (2018: £nil).

## Notes to the annual financial statements (continued)

for the year ended 31 December 2019

### 21. Related-party transactions

#### 21.1 Identity of related parties

The Company has a related party relationship with its directors (refer to page 5) 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 Holdings Limited
- European Rail Finance Limited
- Eversholt Rail Leasing Limited
- Eversholt Rail Holdings (UK) Limited (dissolved on 4 February 2020)
- Eversholt Investment Limited
- Eversholt Finance Holdings Limited
- 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 Finance Holdings 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.

#### 21.2 Transactions with related parties

The Company has loan accounts with fellow subsidiaries described in note 11 and note 15. Interest on these accounts is described in notes 4.2 and 5.

Payments made to directors are described in note 7.

The Company charged funding service fee to Eversholt Rail Limited of £15,000 (2018: £15,000). In addition, the Company recharged expenses to Eversholt Rail Limited of £591,000 (2018: £390,000).

The Company charged transaction fees to Eversholt Rail Leasing Limited of £833,000 (2018: £708,000).

The Company transferred borrowing related transaction costs of £647,000 (2018: £918,000) to Eversholt Rail Leasing Limited.

### 22. Contingent liabilities

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

### 23. Subsequent events

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