

Eversholt Rail Limited

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

Registered No: 06953114

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

During the year and up to the date of signing the financial statements, Eversholt Rail Limited (the "Company"), provided asset management and administrative services on an arm's length basis to other companies in the Eversholt UK Rails Group ("Group") more fully described in note 31. These included the procurement and management of heavy maintenance on rolling stock, asset management services and consultancy services. The Company also manages utilisation of the Group's senior debt to fund the activities of other group undertakings and is responsible for day to day cash management for the Group.

In the year the Company generated a profit of £17,985,000 (2018: £16,133,000). As at 31 December 2019 the Company had net assets of £156,327,000 (2018: £141,561,000). The average number of persons employed by the Company during the year was 108 (2018: 116).

Risk management

Underpinning all of the Group's activities is the primary requirement to effectively manage safety risks. The Company employs highly skilled engineers to manage safety risks in accordance with guidance provided by specialists who monitor safety performance and legislative requirements.

The principal commercial risk for the Company arises in respect of its long term maintenance contracts. This risk is managed by close monitoring of maintenance expenditure incurred against forecasts which are informed by maintaining an excellent knowledge of the condition of the Group's fleets of rolling stock.

The Company is subject to the risk management objectives and policies of the Group. The risks relevant to the Company, together with an analysis of the exposure to such risks, are set out in note 28 of the financial statements.

Financial performance

The Company's results for the financial year are detailed in the Income statement on page 11.

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.

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. As a wholly owned subsidiary, the Directors do not consider the factor listed in section 172(1)(f) (need to act fairly between the members of the company) is relevant to the proper discharge of their duty under section 172.

The business of the Company is the provision of asset management and administrative services to other group companies. The Company employs all the employees of the Eversholt UK Rails Group.

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. Accordingly, consideration of long term consequences are an inherent part of the Company's decision making processes. As a privately-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 operations, promoting long term strategic decision-making.

These factors also drive a continuing focus on the maintenance of durable relationships with stakeholders, built on the Eversholt UK Rail Group's reputation with customers and suppliers.

Strategic report (continued)

for the year ended 31 December 2019

Section 172(1) statement (continued)

Details of the Code of Practice that sets out the basis on which the wider Group deals with customers and other stakeholders, and other methods of stakeholder engagement designed to maintain the Group's reputation for high standards of business conduct, is set out in the corporate governance statement within the Annual Report and Accounts of Eversholt UK Rails Limited (the parent company of the Eversholt UK Rails Group) for the year ended 31 December 2019.

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 business of the Company, the Board believes that five 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 customers;
- industry regulators;
- the Group's suppliers;
- the Group's employees; 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 Accounts of Eversholt UK Rails Limited for the year ended 31 December 2019.

Impact on the environment and the community

In addition to understanding and having regard to the interests of these stakeholder groups, the Company is committed to reducing the environmental impact of its leased fleet. Further information on the steps taken to reduce the environmental impact of the Group's operations, and on the Group's participation in industry discussions in response to the UK Government's challenge to the UK rail industry to remove all diesel-only trains by 2040, are set out in the corporate governance statement set out within the Annual Report and Accounts of Eversholt UK Rails Limited for the year ended 31 December 2019 (Parent Governance Statement).

The Company strives to make a positive impact in the community. Further information on the Group's community and charitable activities in which the Company directly participates is set out in the Parent Governance Statement.

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, appearing to be 'M B Kenny', with a long horizontal line 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

J R Davis (appointed on 18 July 2019)

D Spence (appointed on 18 July 2019)

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.

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.

Future developments

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

Dividends

No dividend was paid in the year (2018: £nil). Dividend payments are reflected in the financial statements in the year in which they are declared.

Going concern basis

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

Disclosure of information to the auditor

Each person who is a Director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

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.

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

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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and applicable law.

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 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 Rail Limited
for the year ended 31 December 2019

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the Company:

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

We have audited the financial statements of the Company which comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of cash flows;
- the Statement of changes in equity; and
- the related notes 1 to 33.

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

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

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

Independent Auditor's report to the Members of Eversholt Rail Limited (continued)
for the year ended 31 December 2019

Other information (continued)

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

We have nothing to report in respect of these matters.

Respective responsibilities of directors and auditor

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Independent Auditor's report to the Members of Eversholt Rail Limited (continued)
for the year ended 31 December 2019

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
Revenue			
Maintenance income	5.1	65,561	57,449
Service fee income	5.1	19,556	20,052
Other income	5.1	4,558	4,251
Total revenue		89,675	81,752
Cost of sales	6	(46,697)	(41,908)
Gross profit		42,978	39,844
Finance income	7	127,026	117,431
Finance expense	8	(119,169)	(115,909)
Pension finance expense	27.6	(96)	(95)
Administrative expense	9	(29,426)	(20,910)
Loss on disposal of property, plant and equipment		(2)	(10)
Profit before tax		21,311	20,351
Income tax charge	12	(3,326)	(4,218)
Profit for the year		17,985	16,133

There were no discontinued or discontinuing operations during the year.

The notes on pages 15 to 40 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		17,985	16,133
Other comprehensive (expense)/income			
Actuarial (loss)/gain on defined benefit scheme	27.7	(2,579)	441
Tax credit/(charge) in respect of actuarial gain on defined benefit scheme	25	438	(75)
		(2,141)	366
Total comprehensive income for the year		15,844	16,499

Amounts (charged)/credited to other comprehensive income together with related tax effects are expected to be recycled through reserves in future years.

Statement of financial position
as at 31 December 2019

	<i>Note</i>	2019 £'000	2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	14	348	630
Right-of-use assets	15	2,453	-
Deferred tax	25	1,853	1,416
Amounts owed by group undertakings	19	2,547,494	2,368,879
		<u>2,552,148</u>	<u>2,370,925</u>
Current assets			
Inventory	16	511	736
Trade and other receivables	17	3,134	4,502
Contract assets	5.2	4,568	16,363
Amounts owed by group undertakings	19	59,429	57,039
Cash and cash deposits	20	15,809	171,095
		<u>83,451</u>	<u>249,735</u>
Total assets		<u>2,635,599</u>	<u>2,620,660</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	21	28,203	19,098
Lease liabilities	18	745	-
Current tax		16,588	20,008
Borrowings	22	407,249	21,266
Provisions	24	40	35
		<u>452,825</u>	<u>60,407</u>
Non-current liabilities			
Retirement benefit obligations	27.5	6,517	3,691
Borrowings	22	1,992,924	2,390,782
Contract liabilities	5.2	23,996	24,219
Lease liabilities	18	2,849	-
Provisions	24	161	-
		<u>2,026,447</u>	<u>2,418,692</u>
Total liabilities		<u>2,479,272</u>	<u>2,479,099</u>
Equity			
Share capital	26	100,000	100,000
Retained earnings		56,327	41,561
Total equity		<u>156,327</u>	<u>141,561</u>
Total equity and liabilities		<u>2,635,599</u>	<u>2,620,660</u>

The notes on pages 15 to 40 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: 06953114

Statement of cash flows

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flow from operating activities			
Profit before tax		21,311	20,351
Adjustments for:			
- Depreciation of property, plant and equipment	9	280	345
- Depreciation of right-of-use assets	9	494	-
- Write down of inventory	9	225	206
- Loss on disposal of property, plant and equipment		2	10
- Finance income	7	(127,026)	(117,431)
- Finance expense	8	119,169	115,909
- Adjustment for non-cash element of pension charge		247	258
Operating cash flow before changes in working capital		14,702	19,648
Decrease/(increase) in trade and other receivables		1,368	(3,079)
Decrease in contract assets		11,795	13,730
Increase/(decrease) in trade and other payables		7,460	(6,936)
Decrease in contract liabilities	5.2	(223)	(171)
Increase in provision	24	166	-
Cash flow generated by operating activities		35,268	23,192
Taxation (paid)/received		(6,524)	3,838
Net cash generated by operating activities		28,744	27,030
Cash flow from investing activities			
Movement in intercompany loan accounts	23	(173,141)	(75,278)
Movement in term lending to Eversholt Rail Leasing Limited	23	118,761	118,759
Acquisition of property, plant and equipment	14	-	(203)
Redemption of short-term bank deposits	20	30,000	220,000
Net cash (utilised)/generated by investing activities		(24,380)	263,278
Cash flow from financing activities			
Movement in intercompany loan accounts	23	(212,645)	(236,090)
Movement in loan from Eversholt Funding plc	23	85,000	-
Repayment of lease liability	18	(733)	-
Finance income received	7	401	2,190
Finance expense paid	8	(1,673)	(1,681)
Net cash utilised by financing activities		(129,650)	(235,581)
Net movement in cash and cash equivalents		(125,286)	54,727
Cash and cash equivalents at the beginning of the year		141,095	86,368
Cash and cash equivalents at the end of the year	20	15,809	141,095

Statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018		100,000	25,062	125,062
Profit for the year		-	16,133	16,133
Actuarial gain on defined benefit scheme	27.7	-	441	441
Income tax on other comprehensive income	25	-	(75)	(75)
Total comprehensive income		-	16,499	16,499
Dividends paid		-	-	-
Balance at 31 December 2018		<u>100,000</u>	<u>41,561</u>	<u>141,561</u>
Adjustment in respect of impact of adoption of IFRS 16 Leases	4	-	(1,299)	(1,299)
Income tax on adjustment in respect of impact of adoption of IFRS 16 Leases	4	-	221	221
Balance at 1 January 2019		<u>100,000</u>	<u>40,483</u>	<u>140,483</u>
Profit for the year		-	17,985	17,985
Actuarial loss on defined benefit scheme	27.7	-	(2,579)	(2,579)
Income tax on other comprehensive income	25	-	438	438
Total comprehensive income		-	15,844	15,844
Dividends paid		-	-	-
Balance at 31 December 2019		<u>100,000</u>	<u>56,327</u>	<u>156,327</u>

No dividend was paid in the year (2018: £nil).

Notes to the annual financial statements

for the year ended 31 December 2019

1 General Information

Eversholt Rail Limited is a private company incorporated in England and Wales and is limited by shares (see note 26). 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 Rail Limited have been prepared on the historical cost basis except for the derivative 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 EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2019, there were no unendorsed standards effective for the year ended 31 December 2019 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of the Company for the year ended 31 December 2019 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

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

2.2 Standards and Interpretations issued by the IASB

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

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

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

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

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

2.3 Going concern

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

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 the policy in relation to lease transactions. This policy was implemented with effect from 1 January 2019, following the application of IFRS 16 Leases.

3.1 Maintenance income, costs, contract assets and liabilities

Following the industry standard and as acknowledged by legislation, heavy maintenance services are provided to successive lessees based on a whole-of-life model. Amounts received under these arrangements that relate to maintenance services to be performed in future years are included in contract liabilities. When maintenance services are performed, the cost of which will be recovered under these arrangements only in future years, the future recoverable amount is included in contract assets. Revenue from maintenance services rendered is recognised when the services are provided and performance obligations satisfied. In all cases maintenance service costs are expensed as incurred.

3.2 Finance income and expense

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

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

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

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

3.3 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".

3.4 Income tax

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

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

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

Deferred tax is calculated using the tax rates expected to apply in the periods 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

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

3 Summary of significant accounting policies (continued)

3.4 Income tax (continued)

- (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
 - (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.

3.5 Property, plant and equipment

Equipment, fixtures and fittings are stated at cost being the fair value at acquisition date less any impairment losses and depreciation calculated on a straight-line basis to write down the assets over 2 to 5 years.

The depreciation charge is included within Administrative expense in the Income statement.

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

At each reporting date, the Company reviews the carrying value of its property, plant and equipment, which includes fixtures and fittings to determine whether there is any indication that the assets have suffered an impairment loss. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

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

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

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

3.6 Financial instruments

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

Classification and measurement

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

The Company holds the following classes of financial instruments:

Amounts owed by group undertakings, trade and other receivables

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

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

3 Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

Cash and cash equivalents

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

Financial liabilities

Financial liabilities are 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 receivables" and "Contract assets" which result from transactions within the scope of IFRS 15 and which do not contain a significant financing component. As such assets are measured at amortised cost.

12 month ECL allowance is carried for other financial assets carried at amortised cost where the credit risk has not increased significantly since the initial recognition. Where credit risk has increased significantly, lifetime ECL allowance will be carried.

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

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

Offsetting financial assets and financial liabilities

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

Derivatives and hedge accounting

The Company enters into derivative financial instruments to manage its exposure to foreign exchange 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

3 Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

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 a capital expenditure transaction and the hedging relationship ends, the hedging gain or loss recognised in Other comprehensive income is amortised to Property, plant and equipment over the life of the hedged item. 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.

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); and
- 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.

3.7 Statement of cash flows

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

3.8 Share capital

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

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

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

3 Summary of significant accounting policies (continued)

3.9 Retirement benefit obligations

The Company provides defined benefit and defined contribution schemes on behalf of directors and staff. The defined benefit scheme is funded by contributions partly from the employees and partly from the Company at rates assessed by an independent actuary. These contributions are invested separately from the Company's assets.

The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual year to the net defined benefit liability.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in Other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the Income statement.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The defined benefit liability recognised in the Statement of financial position represents the fair value of plan assets less present value of defined benefit obligations adjusted for unrecognised past service costs. Any net defined benefit surplus is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value.

3.11 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The provision is recognised as the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

3.12 Use of judgements, estimates and assumptions

In the application of the Company's accounting policies, the Directors 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.

3.13 Accounting for lease transactions

The Company as lessee

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

3 Summary of significant accounting policies (continued)

3.13 Accounting for lease transactions (continued)

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

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

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

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

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

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

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

Critical estimates and assumptions in applying the Company's accounting policies

In making their estimate of the valuation of the defined benefit pension obligation, management have made a number of assumptions, based on advice from an independent actuary. These assumptions are more fully described in note 27.

Other than in respect of the defined pension obligation, there are no key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting year that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

4 Implementation of new IFRS Standards

IFRS 16 Leases was implemented with effect from 1 January 2019. The Company only acts in the capacity of a lessee.

Financial impact of the initial application of IFRS 16

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

4 Implementation of new IFRS Standards (continued)**Financial impact of the initial application of IFRS 16 (continued)**

The cumulative effect of adoption is reflected as an adjustment to the opening balance of retained earnings. On transition to IFRS 16, the Company has recognised right-of-use assets of £2,847,000, corresponding lease liabilities of £4,146,000 and deferred tax of £221,000. The difference between these amounts (net of £1,078,000) was recognised in retained earnings on 1 January 2019.

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

1. £494,000 in "Administrative costs". This amount relates to depreciation relating to the Company's right-of-use assets; and
2. £81,000 finance expense, relating to lease liability interest.

Under IAS 17, rentals of £732,000 (2018: 684,000) would have been charged to administrative costs.

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

Relative to the IAS 17 presentation therefore, the cashflow impact is an increase in "Operating cash flow before changes in working capital" of £732,000 and an increase in the "Cash flow from financing activities" of £733,000 (outflow).

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

	£'000
IAS 17 operating lease commitments at 31 December 2018	4,424
Present value of IAS 17 operating commitments at 31 December 2018	4,146
Lease liabilities recognised on transition to IFRS 16, at 1 January 2019	4,146

5 Revenue from contracts with customers**5.1 Revenue information**

The Company generates revenue primarily from the provision of maintenance services. Total income can be analysed as follows:

	2019 £'000	2018 £'000
Revenue from contracts with customers - Maintenance income	65,561	57,449
Service fee income	19,556	20,052
Other income	4,558	4,251
	<u>89,675</u>	<u>81,752</u>

Maintenance income from contracts with customers arises wholly in the UK and is recognised as services are provided over time. Revenue (and the terms of payments by customers) is determined by reference to transaction prices within formal contracts between the Company and its customers which are adjusted periodically by reference to pricing indices.

Service fee income and Other income relate to the provision in the UK of asset management and consultancy services to Group and external customers respectively. Revenue is recognised over time as services are provided (when the customers receive the benefit), as determined by reference to transaction prices agreed with customers. There are no contract balances or trade receivables held in relation to this activity. The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2019 is set out below.

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

5 Revenue from contracts with customers (continued)**5.1 Revenue information (continued)**

There are no outstanding performance obligations in relation to Group customers.

Performance obligations expected to be fulfilled in relation to external customers:

	2019 £'000	2018 £'000
Within 1 year	3,171	2,842
1-2 years	3,171	2,932
2-5 years	10,513	9,797
>5 years	34,883	35,186
	<u>51,738</u>	<u>50,757</u>

5.2 Contract Balances

Contract assets, contract liabilities and trade receivables are as follows:

	2019 £'000	2018 £'000
Contract assets	4,568	16,363
Contract liabilities	23,996	24,219
Trade receivables	116	744

Current year movements on these amounts can be attributed to normal business activity (i.e. the recognition of revenue; maintenance expenditure incurred and which will be recovered in future; amounts invoiced; and consideration for services received in advance of performing the maintenance activity).

The contract assets relate to the Company's rights to consideration for services provided but not billed at the reporting date. The contract assets are reduced as the customer is billed for services in accordance with the contracted billing profile and any necessary performance obligation are satisfied.

The contract liabilities relate to consideration received from customers for maintenance of rolling stock in advance of related services being provided.

Maintenance revenue is recognised over time, when control of the service is transferred to the customer. This is measured by reference to consideration specified in the contract with a customer and maintenance expenditure incurred (i.e. applying an input method, regarded by the Company as being representative of work performed and therefore performance obligations being satisfied). Contract liabilities are expected to be recognised as revenue over the course of contracts (which are typically 10 years or less), as expenditure is incurred.

The amount of £24,219,000 (2018: £23,390,000) recognised in contract liabilities at the beginning of the year has been recognised as revenue for the year ended 31 December 2019.

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2019 is set out below.

As maintenance expenditure is incurred, the Company expects that these performance obligations will be satisfied in the following periods:

	2019 £'000	2018 £'000
Within 1 year	62,394	35,282
1-5 years	87,606	61,640
	<u>150,000</u>	<u>96,922</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

6 Cost of sales

	2019 £'000	2018 £'000
Maintenance cost	<u>46,697</u>	<u>41,908</u>

7 Finance income

	2019 £'000	2018 £'000
Bank interest	401	2,190
Interest receivable on intercompany loan accounts	64,904	51,070
Interest receivable on term loan to Eversholt Rail Leasing Limited	<u>61,721</u>	<u>64,171</u>
	<u>127,026</u>	<u>117,431</u>

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

8 Finance expense

	2019 £'000	2018 £'000
Interest payable to Eversholt Funding plc	(115,770)	(114,228)
Fees payable	(1,673)	(1,681)
Lease liability interest	(81)	-
Other interest	<u>(1,645)</u>	<u>-</u>
	<u>(119,169)</u>	<u>(115,909)</u>

9 Administrative expense

Administrative expense includes:

	2019 £'000	2018 £'000
Foreign exchange (loss)/gain	(9)	1
Depreciation – Fixtures, fittings and equipment	(280)	(345)
Depreciation – Right-of-use assets	(494)	-
Inventory charge	(225)	(206)
Defined contribution pension costs	(798)	(756)
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	<u>(80)</u>	<u>(125)</u>

10 Staff numbers and costs

The average number of persons employed by the Company, including Directors, during the year was as follows:

	2019	2018
Directors	4	3
Operations	50	63
Administration	<u>54</u>	<u>50</u>
	<u>108</u>	<u>116</u>

The aggregate payroll costs of these persons were as follows:

	2019 £'000	2018 £'000
Wages and salaries	(11,884)	(11,474)
Social security costs	(1,448)	(1,430)
Contributions to defined contribution pension scheme	(798)	(756)
Defined benefit pension scheme service cost	<u>(351)</u>	<u>(359)</u>
	<u>(14,481)</u>	<u>(14,019)</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

11 Directors' emoluments

	2019 £'000	2018 £'000
Directors' emoluments for services to the Company	(2,584)	(2,095)
Number of Directors who are active members of a defined benefit pension scheme	1	1

The emoluments of the highest paid Director, including benefits in kind were £962,335 (2018: £983,531).

The accrued pension contributions paid by the Company in respect of the highest paid Director for the year were £nil (2018: £nil).

None of the Directors has any share options or interests in the share capital of the Company. The Directors are the only key management personnel.

12 Income tax charge

	Note	2019 £'000	2018 £'000
Current tax			
UK Corporation tax on current year profit		(3,765)	(4,016)
Adjustment in respect of prior years		661	(316)
		<u>(3,104)</u>	<u>(4,332)</u>
Deferred tax			
Origination and reversal of temporary differences	25	(311)	127
Change in tax rates	25	33	(13)
Adjustment in respect of prior year	25	56	-
		<u>(222)</u>	<u>114</u>
Income tax charge		<u>(3,326)</u>	<u>(4,218)</u>

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

The deferred tax as at 31 December 2019 has been calculated based on the rate of 17% substantively enacted at the reporting date.

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

	2019 £'000	2018 £'000
Profit before tax	21,311	20,351
Taxation at UK corporation tax rate of 19% (2018: 19%)	(4,049)	(3,867)
Amounts not deductible for tax purposes	(27)	(22)
Adjustment in respect of prior years	717	(316)
Change in tax rates	33	(13)
Income tax charge	<u>(3,326)</u>	<u>(4,218)</u>

In addition to the amount charged to the Income statement, the aggregate amount of current and deferred tax relating to components of other comprehensive income resulted in an increase of £438,000 recognised in total comprehensive income (2018: £75,000 decrease).

13 Dividends

No dividend was paid in the year ended 31 December 2019 (2018: £nil).

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

14 Property, plant and equipment

	Fixtures and fittings £'000	Equipment £'000	Total £'000
Cost			
Balance at 1 January 2018	1,307	2,341	3,648
Additions	-	203	203
Disposal	-	(462)	(462)
Balance at 31 December 2018	1,307	2,082	3,389
Additions	-	-	-
Disposal	-	(141)	(141)
Balance at 31 December 2019	1,307	1,941	3,248
Depreciation			
Balance at 1 January 2018	1,259	1,607	2,866
Charge for the year	29	316	345
Disposal	-	(452)	(452)
Balance at 31 December 2018	1,288	1,471	2,759
Charge for the year	19	261	280
Disposal	-	(139)	(139)
Balance at 31 December 2019	1,307	1,593	2,900
Carrying value at 31 December 2019	-	348	348
Carrying value at 31 December 2018	19	611	630

All assets have been pledged to secure borrowings of the Security group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted over the use of proceeds of sale.

15 Right-of-use of assets

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
As at 1 January 2019 – recognised on adoption of IFRS 16	2,847	-	2,847
Additions	75	25	100
Depreciation charge	(486)	(8)	(494)
Balance at 31 December 2019	2,436	17	2,453

16 Inventory

	2019 £'000	2018 £'000
Rolling stock spares	511	736

Write down in the value of inventories recognised within administrative expenses in the Income statement is an expense amounting to £225,000 (2018: £206,000). Stock is measured at the lower of cost and net realisable value.

All assets have been pledged to secure borrowings of the Security Group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted over the use of proceeds of sale.

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

17 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	116	744
Other receivables	2,683	3,224
Overheads prepayment	335	534
	<u>3,134</u>	<u>4,502</u>

18 Lease liabilities

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
As at 1 January 2019 – recognised on adoption of IFRS 16	4,146	-	4,146
Additions	75	25	100
Interest charge	81	-	81
Payments	(726)	(7)	(733)
Balance at 31 December 2019	<u>3,576</u>	<u>18</u>	<u>3,594</u>

Total lease liabilities can be analysed as follows:

	2019 £'000
Current	745
Non current	<u>2,849</u>
	<u>3,594</u>

Maturity of lease liabilities

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

	2019 £'000
Within one year	<u>814</u>
In more than one year but not more than two years	750
In more than two years but not more than five years	2,046
In more than five years	<u>186</u>
Non-Current	<u>2,982</u>

19 Amounts owed by group undertakings

	2019 £'000	2018 £'000
Current		
Term lending to Eversholt Rail Leasing Limited	<u>59,429</u>	<u>57,039</u>
Non-current		
Eversholt Finance Holdings Limited	24	22
European Rail Finance (2) Limited	19,902	21,166
Eversholt Funding plc	31,533	32,401
Eversholt Investment Limited	55,240	57,939
Eversholt Depot Finance Limited	5,999	8,139
Eversholt Rail Leasing Limited	1,112,435	865,093
Eversholt UK Rails (Holding) Limited	-	2,328
Term lending to Eversholt Rail Leasing Limited	<u>1,322,361</u>	<u>1,381,791</u>
	<u>2,547,494</u>	<u>2,368,879</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

19 Amounts owed by group undertakings (continued)

The term loan with Eversholt Rail Leasing Limited is repayable on or before 1 April 2036 with capital and interest payable on a monthly basis. Interest is charged at a fixed rate plus margin.

The intercompany loans with other entities are classified as non-current as they are repayable on 4 November 2023. Borrowing entities may prepay and redraw loans until the repayment date. Interest on the loans are receivable 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 group undertakings have been presented as "cash flow from investing activities". In the 2018 financial statements, such amounts were presented as "cash flow from financing activities" and hence the current year's comparative has been restated.

20 Cash and cash deposits

Cash and cash deposits are analysed as:

	2019 £'000	2018 £'000
Cash	15,809	71,095
Cash demand deposits	-	70,000
Cash and cash equivalents	15,809	141,095
Short-term bank deposits	-	30,000
Cash and cash deposits	15,809	171,095

Short-term bank deposits have maturity of between three and twelve months.

21 Trade and other payables

	2019 £'000	2018 £'000
Trade payables	1,374	4,084
Other payables	10,661	3,034
Maintenance and administrative accruals	16,168	11,980
	28,203	19,098

22 Borrowings

	2019 £'000	2018 £'000
Current		
Intercompany internal accrued interest	22,249	21,266
Eversholt Funding plc	385,000	-
	407,249	21,266
Non-Current		
European Rail Finance Limited	69,319	69,620
Eversholt Funding plc	1,640,000	1,940,000
Eversholt Rail (365) Limited	-	7,474
European Rail Finance Holdings Limited	283,451	373,688
Eversholt UK Rails (Holding) Limited	154	-
	1,992,924	2,390,782
Total	2,400,173	2,412,048

The loans from European Rail Finance Limited, European Rail Finance Holdings Limited and Eversholt UK Rails (Holding) Limited are repayable on 4 November 2023. The Company may prepay and redraw its loan until the repayment date, interest is payable monthly at LIBOR, less margin. (2018: LIBOR, less margin).

The loan from Eversholt Funding plc mirrors the terms of the Group's senior debt.

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

22 Borrowings (continued)

The Eversholt UK Rails (Holding) Limited (Security Group) ("Security Group") has granted a fixed and floating charge over all of its assets to secure the borrowings of the Security Group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted over the use of proceeds of sale.

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.

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	438,638	522,211
In more than five years	1,540,000	1,568,571
	<u>1,992,924</u>	<u>2,390,782</u>

23 Reconciliation of assets and liabilities arising from investing and financing activities

	As at 31 December 2018 £'000	Non-cash finance (income)/ expense £'000	Cash Flows (payments)/ receipts £'000	As at 31 December 2019 £'000
31 December 2019				
Investing/financing activities attributable to:				
Assets				
Amounts owed by Eversholt Rail Leasing Limited	(1,438,830)	(61,721)	118,761	(1,381,790)
Amounts owed by group undertakings	(987,088)	(64,904)	(173,141)	(1,225,133)
	<u>(2,425,918)</u>	<u>(126,625)</u>	<u>(54,380)</u>	<u>(2,606,923)</u>
Liabilities				
Borrowings	<u>2,412,048</u>	<u>115,770</u>	<u>(127,645)</u>	<u>2,400,173</u>

	As at 31 December 2017 £'000	Non-cash finance (income)/ expense £'000	Cash Flows (payments)/ receipts £'000	As at 31 December 2018 £'000
31 December 2018				
Investing/financing activities attributable to:				
Assets				
Amounts owed by Eversholt Rail Leasing Limited	(1,493,418)	(64,171)	118,759	(1,438,830)
Amounts owed by group undertakings	(860,740)	(51,070)	(75,278)	(987,088)
	<u>(2,354,158)</u>	<u>(115,241)</u>	<u>43,481</u>	<u>(2,425,918)</u>
Liabilities				
Borrowings	<u>2,533,910</u>	<u>114,228</u>	<u>(236,090)</u>	<u>2,412,048</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

24 Provisions

	2019 £'000	2018 £'000
Current	40	35
Non-current	161	-
	<u>201</u>	<u>35</u>

Provision relates to dilapidations on leased office buildings.

	2019 £'000	2018 £'000
Balance at beginning of the year	35	35
Additions	166	-
Balance at the end of the year	<u>201</u>	<u>35</u>

25 Deferred tax

Deferred tax assets and liabilities are offset where the relevant criteria are met (see note 3.4). The following is the analysis of the deferred tax balances:

	2019 £'000	2018 £'000
Deferred tax assets	<u>1,853</u>	<u>1,416</u>

The following are the major deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting year:

	Capital Allowances £'000	Provisions £'000	IFRS 16 impact £'000	Retirement benefit obligations £'000	Prior year adjustments £'000	Total £'000
At 1 January 2018	117	610	-	659	(9)	1,377
Credit to Income Statement	13	65	-	49	-	127
Charge to other comprehensive income	-	-	-	(84)	-	(84)
Effect of change in tax rate:						
- Income Statement	(1)	(7)	-	(5)	-	(13)
- Other comprehensive income	-	-	-	9	-	9
At 31 December 2018	<u>129</u>	<u>668</u>	<u>-</u>	<u>628</u>	<u>(9)</u>	<u>1,416</u>
Adjustment on adoption of IFRS 16	-	-	221	-	-	221
Credit/(charge) to Income Statement	10	(329)	(39)	47	56	(255)
Credit to other comprehensive income	-	-	-	490	-	490
Effect of change in tax rate:						
- Income Statement	(1)	35	4	(5)	-	33
- Other comprehensive income	-	-	-	(52)	-	(52)
At 31 December 2019	<u>138</u>	<u>374</u>	<u>186</u>	<u>1,108</u>	<u>47</u>	<u>1,853</u>

In assessing the recoverability of deferred tax assets, the Company considers the extent to which it is probable that there will be sufficient taxable profits in the future to allow the benefit of part or all of the deferred tax asset to be utilised. In assessing this, the Company considers internal profit projections and budgets and related tax impacts, as well as the amount and timing of the reversal of timing differences giving rise to deferred tax liabilities at the balance sheet date.

26 Share capital

	2019 £'000	2018 £'000
Authorised, allotted, called up and fully paid		
100,000,002 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

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

27 Retirement benefit obligations**27.1 General description of scheme****Final salary pension**

The Company provides a defined benefit pension scheme to some employees. Eversholt Rail Limited Section (the "Section") is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme. The Section is governed by a trustee board, which is independent of the Company.

The Section is a shared cost arrangement whereby the Company is only responsible for a share of the cost. The figures reported below therefore represent only the Company's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the year are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit. This is for simplicity of presentation and for consistency with the liabilities and assets quoted in the table showing the pension scheme liability or asset at the end of the year.

Employer contributions were 19.60% of Section pay for the year ended 31 December 2019 (19.10% for the period to 30 June 2018 and 19.60% for the six months to 31 December 2018).

The Section is open to new members transferring in from other sections of the Railways Pension Scheme.

The Company is exposed to a number of risks relating to the Section including assumptions not being borne out in practice. The most significant risks are as follows:

- **Asset volatility:** There is the risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Section's defined benefit obligation ("DBO"). The Section holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but gives exposure to volatility and risk in the short-term.
- **Change in bond yields:** A decrease in corporate bond yields will increase the value placed on the Section's DBO, although this will be partially offset by an increase in the value of the Section's corporate bond holdings.
- **Inflation risk:** The majority of the Section's DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.
- **Life expectancy:** An increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.
- **Contribution rate:** The Scheme Rules give the Scheme Actuary the power to set the contribution rates for the Company if no agreement can be reached between the Trustee and the Company.

27.2 Membership data

	31 December 2019	31 December 2018
Active members		
Number	15	15
Number with PRP included	10	10
Annual payroll (£'000)	1,163	1,130
PRP included (£'000)	40	40
Average age	50.7	49.7
Deferred members		
Number	49	52
Total deferred pensions (£'000)	348	403
Average age	53.9	54

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

27.2 Membership data (continued)

Pensioner members (including dependants)

	31 December 2019	31 December 2018
Number	51	49
Estimated annual pension payroll (£'000)	1,316	1,220
Average age	67.8	67.2

27.3 Summary of assumptions

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Section Assets	25,854	23,724
Growth assets	25,854	23,724
Government bonds	11,506	11,890
Non-government bonds	5,299	4,530
Other assets	(1)	51
	42,658	40,195

	31 December 2019 %pa	31 December 2018 % pa
Discount rate	1.85	2.65
Price inflation (RPI measure)	2.95	3.20
Increases to deferred pensions (CPI measure)	2.20	2.20
Pension increases (CPI measure)	2.20	2.20
Salary increases plus 0.4% pa promotional salary scale	2.95	3.20

The assumed average expectation of life in years at age 65 is as follows:

	31 December 2019	31 December 2018
Male currently age 65	23.1	23.0
Male currently age 45	24.9	24.8
Female currently age 65	23.9	23.8
Female currently age 45	25.7	25.6

27.4 Defined benefit liability at end of year

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Active members	10,859	8,491
Deferred members	13,032	10,791
Pensioner members (incl. dependants)	29,628	27,064
Total DBO	53,519	46,346
Value of assets at end of year	(42,658)	(40,195)
Funded status at end of year	10,861	6,151
Adjustment for the members' share of deficit	(4,344)	(2,460)
Net defined benefit liability at end of the year	6,517	3,691

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

27 Retirement benefit obligations (continued)

27.5 Reconciliation of net defined benefit liability

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Opening net defined benefit liability	3,691	3,874
Employer's share of pension expense	447	454
Employer contributions	(200)	(196)
Total loss/(gain) recognised in Statement of comprehensive income	2,579	(441)
Closing net defined benefit liability	6,517	3,691

27.6 Pension expense

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Employer's share of service cost	313	321
Employer's share of administration costs	38	38
Total employer's share of service cost	351	359
Employer's share of net interest on net defined benefit liability	96	95
Employer's share of pension expense	447	454

27.7 Other comprehensive income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Loss due to liability experience	1	171
Loss/(gain) due to liability assumption changes	4,186	(735)
Return on plan assets (greater)/less than discount rate	(1,608)	123
Total loss/(gain) recognised in Statement of comprehensive income	2,579	(441)

27.8 Reconciliation of DBO

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Opening DBO	46,346	46,851
Service Cost	518	530
Interest Cost on DBO	1,208	1,156
(Gain)/loss on DBO experience	(28)	258
Loss/(gain) on DBO – financial assumptions	6,977	(1,225)
Actual benefit payments	(1,502)	(1,224)
Closing DBO	53,519	46,346

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

27 Retirement benefit obligations (continued)**27.9 Reconciliation of value of assets**

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Opening value of Section assets	40,195	40,395
Interest income on assets	1,048	997
Return on plan assets greater/(less) than discount rate	2,682	(204)
Employer contributions	200	196
Employee contributions	99	98
Actual benefit payments	(1,502)	(1,224)
Administration costs	(64)	(63)
Closing value of Section assets	42,658	40,195

Tables 27.8 and 27.9 above show the movement in the assets and liabilities of the section as a whole. Some of the figures therefore differ from those in the remaining disclosures which reflect the Company's share of the assets and liabilities associated with the section.

27.10 DBO sensitivity analysis to significant actuarial assumptions

Year ended 31 December 2019	Sensitivity	Approximate increase in DBO £'000
Discount rate	-0.25% p.a.	2,600
Price inflation (CPI measure)*	+0.25% p.a.	2,500
Salary increases	+0.25% p.a.	200
Life expectancy	+1 year	1,800

* Including consistent increases to RPI, salary growth and RPI/CPI related pension increase assumptions

The sensitivity figures above are as at 31 December 2019 and based on the DBO noted in table 27.4 and reflect a reasonable approximation of possible changes.

The Section is subject to a full funding actuarial valuation on a triennial basis. The funding valuation at 31 December 2016 indicated a funding surplus and so no deficit contributions are currently being paid. Employer contributions for the period to 30 June 2018 were 19.1% of Section Pay. Subsequent employer contributions, for the period to 30 June 2021, are 19.6% of Section pay. Future rates are, however, subject to review pending the finalisation of the formal actuarial valuation as at 31 December 2019.

The discounted mean term of the Section's liabilities is 18 years. Expected employer contributions for 2020 is £200,000.

28 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 3.12.

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

28 Risk management (continued)

28.1 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 other group undertakings and equity from its immediate parent.

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

28.2 Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. The Company's principal credit exposures arise from intercompany loans and trade and other receivables.

The Company manages credit risk by way of established risk management processes encompassing credit approvals and the monitoring and reporting of exposures. Regular reviews are undertaken to assess and evaluate the financial stability of counterparties.

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

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

Credit assessments might lead to the counterparty being considered in default or amounts due being written off to the extent not recoverable, taking into account collateral/security/recourse arrangements.

Allowances for ECL are calculated on a lifetime basis, where required for trade receivables and contract assets. In relation to other financial assets, the Company has only limited instances of assets where 12 month ECL allowances might be required. Therefore the need to consider when there is a significant credit deterioration is only needed in rare situations (for example, debts overdue by more 30 days) and on a case by case basis. Counterparties will be regarded as having low credit risk where an investment grade rating is available.

Credit Risk Exposure

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The Company has established a credit procedure under which each new customer is analysed individually for creditworthiness, including for example, external ratings, if they are available, financial statements, credit agency information and industry information. The Company limits its exposure to credit risk through contractual documentation. In monitoring customer credit risk, customers are considered on an individual basis (or grouped according to their credit characteristics, including their geographic location, industry, trading history with the Company and existence of previous financial difficulties).

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

28 Risk management (continued)**28.2 Credit risk management (continued)**

The Company's principal exposure to credit risk as at 31 December 2019 amounts to the balance of Trade and other receivables as disclosed in note 17, Amounts owed by group undertakings as disclosed in note 19 and cash and cash deposits as disclosed in note 20. The carrying amounts of these assets represent the maximum credit exposure.

All such 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.

In particular, substantially all of the trade receivables outstanding at 31 December 2019 have been received subsequent to year end.

In light of the above, the Company has determined that no ECL allowance is required. 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.

28.3 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. The Company manages utilisation of the Group's senior debt to fund the activities of other group undertakings and is responsible for day to day cash management for the Group. The Company borrows funds from and lends funds to other group undertakings through intercompany loans. The Group's liquidity is further underpinned by the ability of group undertakings to borrow under a £600m revolving credit facility which matures on 4 November 2023 and lend proceeds to the Company.

Undiscounted cash flows in respect of financial assets and financial liabilities are analysed below by their contractual due date. Undiscounted cash flows in respect of the intercompany loans with other entities 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.

	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
31 December 2019						
Financial assets						
Amortised cost						
Amounts owed by group undertakings	1,225,133	1,225,133	-	-	1,225,133	-
Intercompany term lending Eversholt Rail Leasing Limited	1,381,790	1,381,790	-	59,429	266,217	1,056,144
Trade and other receivables	3,134	3,134	-	3,134	-	-
Cash and cash deposits	15,809	15,809	15,809	-	-	-
	<u>2,625,866</u>	<u>2,625,866</u>	<u>15,809</u>	<u>62,563</u>	<u>1,491,350</u>	<u>1,056,144</u>
Financial liabilities						
Amortised cost						
Trade and other payables	28,203	28,203	-	28,203	-	-
Intercompany loans	352,924	352,924	-	-	352,924	-
Intercompany term lending	2,047,249	3,136,324	-	506,479	417,685	2,212,160
	<u>2,428,376</u>	<u>3,517,451</u>	<u>-</u>	<u>534,682</u>	<u>770,609</u>	<u>2,212,160</u>
Total financial instruments	<u>197,490</u>	<u>(891,585)</u>	<u>15,809</u>	<u>(472,119)</u>	<u>720,741</u>	<u>(1,156,016)</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

28 Risk management (continued)**28.3 Liquidity risk management (continued)**

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2018						
Financial assets						
Amortised cost						
Amounts owed by group undertakings	987,088	987,088	-	-	987,088	-
Intercompany term lending Eversholt Rail Leasing Limited	1,438,830	1,438,830	-	57,039	249,047	1,132,744
Trade and other receivables	4,502	4,502	-	4,502	-	-
Cash and cash deposits	171,095	171,095	141,095	30,000	-	-
	<u>2,601,515</u>	<u>2,601,515</u>	<u>141,095</u>	<u>91,541</u>	<u>1,236,135</u>	<u>1,132,744</u>
Financial liabilities						
Amortised cost						
Trade and other payables	19,098	19,098	-	19,098	-	-
Intercompany loans	450,782	450,782	-	-	450,782	-
Intercompany term lending	1,961,266	3,047,328	-	100,853	717,267	2,229,208
	<u>2,431,146</u>	<u>3,517,208</u>		<u>119,951</u>	<u>1,168,049</u>	<u>2,229,208</u>
Total financial instruments	<u>170,369</u>	<u>(915,693)</u>	<u>141,095</u>	<u>(28,410)</u>	<u>68,086</u>	<u>(1,096,464)</u>

28.4 Market risk management**Interest rate risk management**

The Company has exposure to fluctuations in interest rates. Cash flow exposure to fluctuations in interest rates is managed at a Group level through the use of interest rate swaps. The net cost or benefit derived from the use of swaps is taken into account in determining the cost of intercompany loans.

Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase of £487,000 (2018: £820,000) in interest expense on borrowings from Eversholt Funding plc, an increase in loans receivable interest income of £160,000 (2018: £880,000) and an increase in cash deposit interest received of £194,000 (2018: £1,786,000). The sensitivity analysis is applied to the borrowing/deposit rate and performed on the monthly balance of the relevant financial instrument and represents a reasonable approximation of possible change.

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

29 Financial Instruments

The intercompany fixed rate term loan from Eversholt Funding Plc represents fixed rate term loans with a carrying value of £1,500m and a fair value estimated to be £1,745m (2018: £1,688m). The basis of this estimate is the market value of the external debt raised by Eversholt Funding plc and lent to the Company on mirror terms. Apart from intercompany term lending and fixed rate borrowings, there are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2019 and 31 December 2018.

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

	Note	Carrying amount		Fair value	
31 December 2019		£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Amortised cost					
Amounts owed by group undertakings	19	1,225,133			
Intercompany term lending Eversholt Rail Leasing Limited	19	1,381,790			
Trade and other receivables	17	3,134			
Cash and cash deposits	20	15,809			
Total financial assets		2,625,866			
Financial liabilities					
Amortised cost					
Trade and other payables	21	28,203			
Intercompany loans	22	560,173			
Intercompany fixed rate term loan from Eversholt Funding plc	22	1,500,000		1,745,034	
Fixed rate borrowings	22	340,000		372,317	
Total financial liabilities		2,428,376			
Total financial instruments		197,490			
31 December 2018	Note	Carrying amount	Level 1 £'000	Fair value Level 2 £'000	Level 3 £'000
Financial assets					
Amortised cost					
Amounts owed by group undertakings	19	987,088			
Intercompany term lending Eversholt Rail Leasing Limited	19	1,438,830			
Trade and other receivables	17	4,502			
Cash and cash deposits	20	171,095			
Total financial assets		2,601,515			
Financial liabilities					
Amortised cost					
Trade and other payables	21	19,098			
Intercompany loans	22	572,048			
Intercompany fixed rate term loan from Eversholt Funding plc	22	1,500,000		1,688,189	
Fixed rate borrowings	22	340,000		343,153	
Total financial liabilities		2,431,146			
Total financial instruments		170,369			

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

30 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).

31 Related-party transactions

31.1 Identity of related parties

The Company has a related party relationship with its directors (refer to page 5) and with other entities in the Eversholt UK Rails Group, namely:

- Eversholt UK Rails Limited
- Eversholt UK Rails (Holding) Limited
- European Rail Finance Holdings Limited
- Eversholt Investment Limited
- European Rail Finance Limited
- Eversholt Rail Leasing Limited
- Eversholt Rail Holdings (UK) Limited (dissolved on 4 February 2020)
- Eversholt Finance Holdings Limited
- Eversholt Funding plc
- 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 Rail Leasing 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

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

31 Related-party transactions (continued)**31.2 Transactions with related parties**

The Company has received fees for the provision of consultancy services to other Group companies as follows:

	2019 £'000	2018 £'000
Eversholt Rail Leasing Limited	18,911	19,183
Eversholt Rail (365) Limited	437	721
Eversholt Depot Finance Limited	208	148

The Company has received fees for the provision of maintenance procurement services to other Group companies as follows:

	2019 £'000	2018 £'000
Eversholt Rail Leasing Limited	67,935	62,568
Eversholt Rail (365) Limited	9,200	8,440

Loan accounts are more fully described in notes 19 and 22. Interest receivable/(payable) on these loan accounts is included in notes 7 and 8. Further breakdown of the interest receivable on intercompany loans is as follows:

	2019 £'000	2018 £'000
Eversholt Funding plc	1,838	1,918
Eversholt Rail Depot Finance Limited	449	595
Eversholt Rail Leasing Limited	61,643	44,628
European Rail Finance Limited	(393)	(2,852)
European Rail Finance Holdings Limited	(1,949)	(88)
Eversholt Investment Limited	3,257	2,951
Eversholt Rail Finance (2) Limited	-	3,681
Eversholt Rail (365) Limited	-	111
Eversholt Finance Holdings Limited	-	1
Eversholt UK Rails (Holding) Limited	58	125

The Company paid £15,000 to Eversholt Funding plc for funding services (2018: £15,000), £120,000 to Eversholt UK Rails Limited for consultancy services (2018: £120,000) and £60,000 to Eversholt UK Rails (Holding) Limited for consultancy services (2018: £60,000).

The Company was recharged costs of £591,000 (2018: £390,000), by Eversholt Funding plc.

31.3 Remuneration of key management personnel

	2019 £'000	2018 £'000
Short-term employment benefits	2,352	1,689
Other long-term employment benefits	333	406
	<u>2,685</u>	<u>2,095</u>

32 Contingent liabilities

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

33 Subsequent events

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