Eversholt UK Rails (Holding) Limited
(Security group)

Non-statutory annual report and financial statements
for the year ended 31 December 2019

Registered No: 10783654

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

Presentation of information

These financial statements are non–statutory financial statements and have been prepared solely for the purpose of meeting the reporting requirements of the Financing Documents entered into by certain of the subsidiaries of Eversholt UK Rails (Holding) Limited (the "Company") on 4 November 2010 and which the Company acceded to on 28 June 2017. The Security Group (the 'Group') consists of the Company and its subsidiaries except for Eversholt Rail (365) Limited (see note 20).

1. Principal activities

The principal activity of the Group is to own and lease rolling stock and other rail assets in the United Kingdom. The Group owns a diverse range of passenger rolling stock including regional, commuter and high speed passenger trains as well as freight locomotives. Customers comprise of train operating companies ("TOCs") and freight operating companies ("FOCs"). Most TOCs are granted franchises to operate passenger rail services by the Department for Transport ("DfT") (or other relevant franchising authorities) whilst FOCs and other TOCs operate on an open access basis. Rolling stock is typically leased to customers on medium to long-term operating leases. The Group also provides services in relation to the procurement and management of heavy maintenance of rolling stock on behalf of its customers.

The group has a proud history of innovation and plays an integral role in the growth and modernisation of the UK rail sector by introducing new products, technologies and manufacturers into the market. We continue to invest in innovation through projects and manufacturers, thereby creating and securing jobs and fostering skills across the UK.

2. Strategy

The Group's strategy is to retain and improve the Group's position as a leading rolling stock leasing company and to develop opportunities for further growth in the transport sector.

The Group's corporate vision is **"To be recognised as the expert provider of transport asset financing and asset management for the long term"**. This is supported by the Group's six strategic themes:

Maintain Value	Maximise asset utilisation and manage assets over life
Enhance Value	Invest to improve attractiveness of the Group's trains
Add Value	Grow the portfolio through selective new build
Acquisitions	Grow the portfolio by selective purchase of in-service fleets and other rail related assets/infrastructure in/outside UK
Great People	Invest in the future of its people
Great Processes	Enable efficient working

Section 4 below describes the progress achieved in 2019, including where relevant details of key performance measures, against the six strategic themes.

3. Business environment

UK rail industry

Until the mid-1990s, British Rail, a UK Government entity, owned all rail operations in the UK, with the exception of those in Northern Ireland, the London Underground and some metropolitan services in other major cities. British Rail was privatised in the mid-1990s and the rail industry was separated into three distinct sectors: rolling stock, operating companies and infrastructure (e.g. track).

Under current arrangements, control over rail infrastructure is the responsibility of Network Rail, a company limited by guarantee. Passenger railway services in the UK are operated by TOCs, in most cases on the basis of franchises which are granted by the relevant franchising authority through a competitive tender process. The Group is one of three rolling stock leasing companies that were established at the time of privatisation to own and lease passenger rolling stock to TOCs.

3. Business environment (continued)

The UK Rail Review

In 2018, the UK Government established a Rail Review to recommend the most appropriate organisational and commercial frameworks to deliver the government's vision for the UK to have a world-class railway, working as part of the wider transport network. The Group contributed throughout the consultation process and now awaits the publication of the Review report and recommendations expected early in 2020. The Group looks forward to the issue of the report and will then assess impacts and opportunities for its business.

The withdrawal of the United Kingdom ("UK") from the European Union ("EU")

The Group will continue to monitor the progress of negotiations during the transition period ending 31 December 2020, now that the UK has formally left the European Union with a withdrawal agreement.

At this stage, impacts are considered limited given that the Group carries out its business solely in the UK and its rolling stock and other rail assets are operated and maintained entirely in the UK. The risk to the Group of disruption or increased cost to the supply chain after the withdrawal of the UK from the EU has been mitigated where possible.

Climate change and the environment

The Group monitors the performance of its rolling stock on a regular basis. Amongst other things, this includes reviewing feedback from TOCs and FOCs (customers and operators of rolling stock) and emission data. Impacts on climate are managed and mitigated where possible, in conjunction with customers.

In early 2018, the UK Government challenged the UK rail industry to remove all diesel-only trains by 2040 and to provide a vision for how it will decarbonise. In June 2019 legislation was established requiring the UK to achieve net zero carbon emissions by 2050, with Scottish Ministers setting earlier deadlines. The Group is an active member of the industry's discussions and response to how these targets can be met most efficiently and effectively. It has been recognised that the railway remains a very low carbon form of transport and that a significant modal shift to rail will be a key element of the overall transport decarbonisation strategy. Inevitably, change will not be immediate and progress will need to be managed in a safe and as effective a way as possible.

The Group, as well as the industry generally, recognises that it has an important role to play in the UK's overall "green" agenda. Together with other industry participants, the Group will continue to improve current traction modes and will seek to innovate and introduce new and improved technologies. The Group continues to investigate three retrofittable technologies: hydrogen fuel cells, batteries and diesel-battery hybrid power packs, to provide zero-emissions mainline operation with carbon-free emissions at stations and in built-up areas.

4. Development and performance of the business

4.1 Maintain Value

Utilisation of the Group's rolling stock averaged 99% for 2019 (2018: 100%) with only a small number of vehicles off-lease and available for re-leasing during the year.

Leasing developments

During 2019 the Group undertook a significant amount of bidding and marketing activity in support of the South Eastern, East Midlands and West Coast Partnership franchise competitions. The East Midlands and West Coast Partnership franchises have been awarded to Abellio and a consortium of First and Trenitalia respectively. The South Eastern franchise competition was cancelled on 7 August 2019.

Due to the initial delay and then cancellation of the South Eastern franchise competition, the Group worked with the Operator and DfT to secure a lease extension in relation to C375, C376, C395 and C465 fleets. This extension had a core term to November 2019 with a possible extension to April 2020. The extension option was exercised when the franchise competition was cancelled in August 2019.

4. Development and performance of the business (continued)

4.1 Maintain Value (continued)

We have since started discussions with the Operator and DfT regarding a potential direct award from 1 April 2020.

The Group has worked with Abellio on East Midlands to secure the C222 fleet on lease until December 2022 and five C170 units until August 2027.

In November 2017 the DfT exercised its option to extend the Great Western Railway franchise until April 2020, we have since been in discussions with the Operator and the DfT regarding a potential direct award post April 2020.

The Group maintains regular contact with its customers, other train operators, DfT and other franchising authorities in order to identify opportunities to cascade rolling stock, often with necessary enhancements, to alternative franchises. Opportunities for mid-life fleets may be fragmented for the next 24 months as substantial volumes of new rolling stock enters service across the network.

End of life assets

During the year the Group's C313 fleet and part of its C315 fleet ceased operational service and were decommissioned. These vehicles, which had on average achieved over 40 years of service, had reached the end of their useful lives and have been replaced by new rolling stock, owned by competitors. The disposal of these vehicles generated proceeds of £0.3m and resulted in a loss on disposal of £1.8m. The timing of the replacement of the remainder of the C315 fleet is dependent on the introduction of new rolling stock and the Group will continue to work flexibly with customers to ensure that their services are maintained in light of changes to new vehicle delivery programmes. The Group has established procedures and has engaged with third parties to reprocess end of life vehicles in a safe and environmentally sustainable way.

Heavy maintenance

During the year the Group delivered heavy maintenance projects across 12 of its fleets, in line with planned mileage-based and time-based maintenance plans. Completed projects include the Mk4, C91 and C320/4 time-based overhauls. Rolling mileage-based maintenance work continued on the C315 C320/4, C318 and the C321 Classic and Renatus fleets. New projects were initiated for C321 and C320 time-based overhauls and C465 mileage-based overhauls. In total, the Group spent £47.2m on maintenance related activity in 2019.

Asset management services

The Group continues to support Cross London Trains (XLT) with asset management services on the C700 fleet. The fleet is leased to Govia Thameslink Railway and maintained by Siemens.

4.2 Enhance Value

Fleet modifications

The Group undertakes strategic upgrades to rolling stock to ensure that its fleets continue to meet regulatory requirements and the current and future demands of its customers. Several upgrade projects were completed during 2019 which include; C465 Persons of Reduced Mobility modifications, C185 mid-life refresh, conversion of a further five (seven completed in 2018) C321 to C320/4 units, C320 franchise modifications and interior refresh and the conversion of Mk4 vehicles to work with a third party C67 locomotive to allow deployment on the Wales and Borders network. Expenditure on modification and refurbishment projects totalled £16.9m during 2019.

Fleet development

The Group continues to explore how its self-powered rolling stock fleets can be adapted to assist in delivery of low and/or zero-emissions railway operations. During 2019, new workstreams focused on medium and longer-distance fleets including the Class 222 diesel-electric multiple units have been launched that will determine the most appropriate approach to modifying their propulsion systems.

4. Development and performance of the business (continued)

4.2 Enhance Value (continued)

Good progress is being made in the programme to develop a Very Light Rail vehicle in response to the need for lightweight energy-efficient system solutions. The initial Demonstrator vehicle is now being assembled and will commence performance validation tests in mid-2020. The VLR demonstrator is being developed as part of an initiative to reduce the cost of rail operation that may lead to increasing train frequency on little used lines and the reopening of railways previously deemed uneconomic. By combining advanced manufacturing processes and low cost technologies from other industries, VLR will demonstrate it is feasible to create a bespoke light rail vehicle for new applications. The demonstrator will be exhibited and used for stakeholder consultation and potential operator feedback. If widely supported this could lead to the manufacture of production vehicles for various applications in the UK.

4.3 Add Value

During the year the Group accepted 399 new vehicles in its portfolio of new build rolling stock. When complete, the programme will represent an investment of £1.1bn. The programme remains on plan for the delivery of the remaining units:

- In May, the final unit of the fleet of 36 C802 bi-mode trains was delivered. All units are currently in service and on lease to Great Western Railway. The units were built by Hitachi at its factory in Italy.
- The Group accepted 128 of the 149 (comprising 58 units) C195 regional fuel-efficient diesel vehicles to run on the Northern franchise during 2019. A total of 33 units were in service at 31 December 2019 with a further 10 accepted units being used for driver training. The remaining units were at various stages of production and testing at Newport, Wales at the end of 2019.
- Of the C331 fleet of regional electric trains for the Northern franchise, 114 had been accepted with 21 units in service from the December 2019 timetable change and 10 accepted units being used for driver training. Production at Zaragoza continues with 27 vehicles to be delivered and accepted during early 2020. All testing is complete subject to individual unit commissioning and fault free running. The programme is forecast to complete in 2020 and in total the fleet will comprise 141 vehicles forming 43 trains.
- All 60 of the C397 high speed electric vehicles are in the UK with nine of the twelve units having been accepted at 31 December 2019. These units are operated by Transpennine Express running between Manchester – Glasgow – Edinburgh and Liverpool – Glasgow – Edinburgh. They entered service after a launch event in November 2019 and will continue to be deployed across the Network, with the full fleet in service by the end of March 2020, accepted units are being used for driver training to support this deployment.

Expenditure on new build rolling stock in 2019 amounted to £392.7m.

4.4 Acquisitions

The Group continues to consider all opportunities for growth, evaluating their strategic fit, potential risks and rewards. The Group closely monitors opportunities to grow its portfolio both in the UK and overseas and the valuations of transactions in the market and the levels of associated risk. Rail liberalisation within the European Union and adoption of a rolling stock leasing model, albeit to a lesser extent than exists in the UK, could lead to increasing opportunities for the business to grow.

4.5 Great People

The Group employs 108 (2018: 116) professional, technical and support staff. We are committed to continuous learning and development to enable our team to take a long-term view of their careers. Details of the Group's approach to equality, diversity, and inclusion together with its methods of engagement with employees can be found in the corporate governance statement within the Annual Report and Accounts of Eversholt UK Rails Limited. During 2019, the Group continued its programme of staff engagement through regular quarterly CEO "town hall" meetings, group-wide training and staff satisfaction survey.

4. Development and performance of the business (continued)

4.6 Great Processes

The Group maintains policies and procedures that document how the business manages quality in the products and services it supplies to the rail industry. The Group does not have a quality management system in the usual sense as it does not design and manufacture products. However, safety, quality and customer satisfaction are important in the rolling stock leasing and maintenance services we provide and are a key consideration in all our business activities. In addition to ISO9001, the Rail Industry Supplier Assurance Scheme (RISAS) is a requirement for all suppliers of safety critical components and services to the rail industry. Although not mandated, we consider accreditation to be a key requisite. Our operational policies and procedures ensure that our compliance to RISAS is maintained and is audited as part of the accreditation process.

During the year, the Group underwent external audit and reaccreditation under RISAS.

5. Risk management

The Group has implemented policies designed to identify, assess and manage risks which are supported by an organisation structure that ensures that responsibilities are clearly defined and communicated. Risks and related mitigating activities are reported to the Group's Audit and Risk Committee and Board of Directors on a periodic basis. Ongoing monitoring and awareness, ensures that new risks and actions initiated to mitigate, are identified in a timely manner.

5.1 Principal risks and uncertainties

The principal risks and uncertainties facing the Group, based on the residual risk to the business assuming current effectiveness of controls/mitigations, and as recorded in the Group's risk register are as follows – some risks are specific to the business whilst others have general application to UK businesses:

Economic conditions

A less positive economic outlook or a disruptive transition to a new trading relationship between the UK and the EU could have a negative impact on the Group's business in terms of reduced demand and reduced opportunities to retain or secure new business. The same factors could affect our key suppliers. The Group regularly reviews long term economic and rolling stock demand forecasts and has taken action to manage the potential impacts of a changed trading relationship between the UK and the EU.

Political and regulatory

The Group is exposed to a changing political landscape. Changes to Government policy, funding, significant delays in infrastructure initiatives, including changes in the franchising model, may result in structural changes to the Rail market. Such changes could impact the Group's business model, reducing profitability, increasing costs and affecting demand for the Group's rolling stock. The Group fosters close relationships with key stakeholders and actively participates in rail industry consultations. In this respect, the Group looks forward to the issue of the Government's latest review (the "Williams Review"), expected shortly. Whilst the contents are unknown, the Group expects the Report to bring clarity to the Rail industry in the medium term.

Rail franchising

In recent years there has been an increase in the number of short term Direct Awards of franchises which has increased re-leasing events. A feature of the current political landscape, the incidence of short term Direct Awards is expected to continue during 2020 and potentially beyond. The Group tailors its offers to lease rolling stock according to the proposed lease duration and seeks to encourage longer lease terms. Fleet management is therefore a key discipline, aided by the strong relationships with key stakeholders.

Competition

The Group competes with other rolling stock owners to secure leases for its rolling stock. In doing so, the Group offers its rolling stock to operators at rentals that are competitive for the utility of the rolling stock relative to alternatives (including new build) and at a price that reflects the re-letting risk at the end of the lease.

5. Risk management (continued)

5.1 Principal risks and uncertainties (continued)

Increased competition could result in lost business and reduced profitability in the short term. The Group maintains a detailed knowledge of the UK rolling stock fleet and new build alternatives, which informs its pricing of offers.

Rail technology

Following the Government's announcements regarding decarbonisation in the UK towards a net zero carbon UK environment by 2050, certain rolling stock could become obsolete, resulting in reduced revenue and profitability. The Group seeks opportunities to enhance its fleets to improve their carbon footprint and work with its partners to develop suitable traction solutions for existing and new rolling stock.

Safety and compliance with laws and regulation

Increasing complexity in rolling stock technology/interaction poses ongoing challenges to ensure safe and effective operation of the rail network. The Group's operations continue to be subject to a wide range of legislation. The Group has well developed policies and procedures to address and manage such risks and the Group recognises that non-compliance can lead to litigation, claims, damages fines and penalties. Fleet performance is constantly monitored for emerging trends that might indicate that a particular fleet has developed a problem.

Treasury and credit rating

The Group is exposed to treasury risks including liquidity, market and credit risk. These risks, together with an analysis of the exposure to such risks, are set out in note 34 of the financial statements. A downgrade in the credit rating of the Group's bonds may lead to increased financing costs and restrict the ability to raise funding for future investment. The Group seeks to maintain investment-grade status and manages its balance sheet accordingly.

The risks listed above are not all of the risks highlighted by our risk management process and are not set out in order of priority. Additional risks and uncertainties not presently known to us or currently deemed to be less material may also impact our business.

5.2 Recoverable value of rolling stock

The Group seeks to maximise the re-letting potential, and therefore the residual value, of its assets by active management of the technical and commercial utility of these assets. Many of the principal risks identified above manifest in a change in the residual value of the Group's operating lease assets.

An assessment is carried out by management at least annually of the commercial value of all operating lease assets, measured as the present value of the net anticipated cash flows arising from ownership over life. This assessment is based on the Group's knowledge of the assets and the rolling stock leasing market.

This assessment provides a basis for measuring the success of the Group in managing its assets, as well as for determining if that value is below the current book value and therefore an impairment provision might be needed.

The Group has a specialist in-house inspection team who consider whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis. The asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Group has an excellent knowledge of the current condition of its fleets.

Fleet performance is constantly monitored for emerging trends that might indicate that a particular fleet has developed a problem. In addition, the Group works proactively with train operators to identify opportunities to improve the performance of its fleets. The Group maintains constant dialogue with the train operators on fleet performance so that any issues can be dealt with quickly.

Modifications to increase asset value by fleet enhancement are scoped by an in-house team of asset managers. Significant investment has been made in the production of mock-ups and vehicle demonstrators in order to advertise the available options.

5. Risk management (continued)

5.2 Recoverable value of rolling stock (continued)

New engineering solutions have been developed to create comfortable and modern passenger environments in preparation for new franchise opportunities; a refurbished interior can be comparable to those offered by new rolling stock.

6. Financial performance

Financial performance is driven by the Group's ability to realise anticipated capital rentals from its rolling stock and other rail assets.

During the year, the Group generated a profit of £22,385,000 (2018: £30,935,000). As at 31 December 2019 the Group had net liabilities of £381,560,000 (2018: £306,534,000). The average number of persons employed by the Group during the year was 108 (2018: 116).

The Group's results for the year are detailed in the Income statement on page 16.

The Group is financed by a mix of equity and senior debt. The terms of the senior debt contain certain covenants; the business is managed to protect compliance with these covenants. Monthly management reporting and analysis to support business decisions considers current and forecast measurements of:

- Its leverage test (net debt as a percentage of EBITDA – earnings before interest, tax, depreciation and amortisation); and
- Its interest cover test (EBITDA divided by net interest payable); and
- Its NPV test (the extent to which net debt is covered by the net present value of anticipated capital rentals);
- Its net exposure to interest rates and foreign exchange; and
- Its profitability measured by EBITDA and profit after tax.

The Group also considers fleet utilisation and a number of key non-financial indicators relating to asset performance including condition, reliability and maintenance.

The Directors are satisfied that the Group, through the support of its parent, has the resources to continue in business for the foreseeable future.

Section 172(1) statement

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

The Company was formed in 2017 to act as an intermediate holding company within the Eversholt UK Rails Group. It undertakes no significant business activity.

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

The Company is the holding company of a group which 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 subsidiaries, promoting long term strategic decision-making.

Section 172(1) statement (continued)

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
- the Eversholt UK Rails Group's owners.

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

- the Group's external lenders
- 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 (the parent company of the Eversholt UK Rails Group) for the year ended 31 December 2019.

Approved by the Board and signed on its behalf by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

18 February 2020

Directors' report
for the year ended 31 December 2019

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

Directors

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

M B Kenny
A J Course (resigned 16 September 2019)
A J Wesson
LDC Securitisation Director No 3. Limited

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

Future developments

The Group expects to continue accepting the new rolling stock fleets, described on page 5, from manufacturers. All new vehicles are planned to be accepted and to enter into operational service during 2020.

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

Political donations

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

Dividends

Dividends of £41,550,000 were paid in the year (2018: £40,100,000).

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group, through the support of its parent, Eversholt UK Rails Limited, has the resources 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, Deloitte LLP was appointed the Auditor.

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

Risk management and Corporate governance

Details of the Company's risk management and Corporate governance arrangements are set out in the Strategic Report.

Fostering Business Relationships

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

Approved by the Board and signed on its behalf by:

M B Kenny
Director
Registered Office:
210 Pentonville Road
London, N1 9JY
United Kingdom
18 February 2020

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

The Directors of Eversholt UK Rails (Holding) Limited have accepted responsibility for the preparation of these non-statutory financial statements for the year ended 31 December 2019.

The Directors have elected to prepare these non-statutory financial statements in accordance with the basis of preparation as described in note 2 to the non-statutory financial statements. The non-statutory financial statements have been properly prepared in accordance with the summary of significant accounting policies as described in note 3 to the financial statements. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable International Financial Reporting Standards ("IFRSs") have been followed; and
- Prepare the non-statutory financial statements on the going concern basis unless it is inappropriate to presume that the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These financial statements were approved by the Board of Directors on 18 February 2020 and were signed on its behalf by:

M B Kenny
Director

Registered Office:
210 Pentonville Road
London
N1 9JY
United Kingdom

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited (Security group)
for the year ended 31 December 2019

Report on the audit of the non-statutory financial statements

Opinion

In our opinion, the non-statutory financial statements for the year ended 31 December 2019 have been properly prepared in accordance with the basis of preparation and accounting policies as stated in notes 2 and 3.

We have audited the non-statutory financial statements of Eversholt UK Rails (Holding) Limited (Security Group) (the 'Group') which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated statement of financial position;
- the Consolidated cash flow statement;
- the Consolidated statement of changes in equity; and
- the related notes 1 to 37.

The financial reporting framework that has been applied in their preparation is the accounting policies as stated in note 3 to the financial statements.

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 non-statutory 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 non-statutory 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.

We draw attention to note 2.1 to the non-statutory financial statements, which describes basis of accounting. The non-statutory financial statements are prepared to assist the Group to fulfil their obligations to provide audited non-statutory financial statements under the terms of the financing agreement (the "Agreement"). As a result, the non-statutory financial statements may not be suitable for another purpose. Our opinion is not modified in respect of that matter.

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 non-statutory financial statements is not appropriate; or

- the Directors have not disclosed in the non-statutory 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 non-statutory financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited (Security group) (continued)

for the year ended 31 December 2019

Other information

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

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory 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 non-statutory financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the non-statutory financial statements in accordance with the accounting policies as stated in notes 2 and 3 to the financial statements and for such internal control as the Directors determine is necessary to enable the preparation of non-statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-statutory 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 non-statutory financial statements

Our objectives are to obtain reasonable assurance about whether the non-statutory 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 non-statutory financial statements.

A further description of our responsibilities for the audit of the non-statutory 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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely for the exclusive use of the Directors and solely for the purpose of reasonable assurance that the financial statements are properly prepared. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited (Security group) (continued)
for the year ended 31 December 2019

The engagement partner on the audit resulting in this independent auditor's report is Makhan Chahal.

Deloitte LLP

Deloitte LLP
London
United Kingdom

18th February 2020

Consolidated income statement
for the year ended 31 December 2019

	Note	Group Year ended 31 December 2019 £'000	Group Year ended 31 December 2018 £'000
Revenue			
Finance lease income		**586**	518
Operating lease income		**369,652**	309,824
Maintenance income		**65,561**	57,449
Other income		**6,765**	7,136
Total revenue	5.1	**442,564**	374,927
Cost of sales	6	**(223,247)**	(185,770)
Gross profit		**219,317**	189,157
Finance income	*7*	**340**	2,194
Finance expense	*8*	**(167,750)**	(152,478)
Net fair value gain on derivative financial instruments	*18*	**5,595**	15,067
Pension finance expense	*32.6*	**(96)**	(95)
Write down of investment in subsidiary	*20*	**-**	(2,835)
Administrative expense	*9*	**(23,835)**	(20,525)
Loss on disposal of property, plant and equipment		**(1,845)**	(16)
Profit before tax		**31,726**	30,469
Income tax (charge)/credit	*12*	**(9,341)**	466
Profit for the year		**22,385**	30,935

There were no discontinued or discontinuing operations during the year.

The notes on pages 21 to 60 form an integral part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2019

	Note	Group Year ended 31 December 2019 £'000	Group Year ended 31 December 2018 £'000
Profit for the year		**22,385**	30,935
Other comprehensive (expense)/income			
Actuarial (loss)/gain on defined benefit scheme	*32.7*	**(2,579)**	441
Tax credit/(charge) in respect of actuarial (loss)/gain on defined benefit scheme	*19*	**438**	(75)
Effective portion of changes in fair value of cash flow hedges	*18*	**(52,773)**	(2,735)
Realised (gain)/loss on cash flow hedges to property, plant and equipment	*18*	**(10,816)**	2,240
Realised loss on cash flow hedges to Income statement	*18*	**710**	-
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	*19*	**10,689**	84
		(54,331)	(45)
Total comprehensive (expense)/income for the year		**(31,946)**	30,890

Effective portion of changes in fair value cash flow hedges, together with related tax effects, may be reclassified to the Income statement in future years. Amounts relating to other items would be recycled through reserves.

Consolidated statement of financial position
as at 31 December 2019

		Group	
		As at 31 December 2019	As at 31 December 2018
Assets	*Note*	£'000	£'000
Non-current assets			
Property, plant and equipment	*13*	**2,343,688**	2,117,835
Right-of-use assets	*14*	**4,304**	-
Finance lease receivables	*15*	**4,419**	5,415
Derivative financial instruments	*18*	**21,821**	23,298
Deferred tax	*19*	**33,822**	29,189
		2,408,054	2,175,737
Current assets			
Inventory	*21*	**511**	736
Finance lease receivables	*15*	**997**	918
Contract assets	*5.2*	**4,568**	16,363
Trade and other receivables	*16*	**10,710**	4,848
Cash and cash deposits	*22*	**71,963**	224,716
		88,749	247,581
Total assets		**2,496,803**	2,423,318
Liabilities and equity			
Current liabilities			
Trade and other payables	*23*	**55,633**	54,662
Lease liabilities	*17*	**820**	-
Current tax		**16,014**	4,194
Borrowings	*24*	**407,661**	20,620
Derivative financial instruments	*18*	**744**	-
Other liabilities	*26*	**5,624**	4,485
Provisions	*27*	**40**	35
		486,536	83,996
Non-current liabilities			
Retirement benefit obligation	*32.5*	**6,517**	3,691
Borrowings	*24*	**1,984,671**	2,283,924
Amounts owed to Eversholt Rail (365) Limited		**-**	7,474
Deferred tax	*19*	**75,364**	81,990
Contract liabilities	*5.2*	**23,996**	24,219
Other liabilities	*26*	**124,740**	116,323
Derivative financial instruments	*18*	**171,213**	128,235
Lease liabilities	*17*	**5,165**	-
Provisions	*27*	**161**	-
		2,391,827	2,645,856
Total liabilities		**2,878,363**	2,729,852
Equity			
Share capital	*28*	**-**	-
Other reserve		**13,672**	13,672
Accumulated deficit		**(343,740)**	(320,904)
Hedging reserve		**(51,492)**	698
Total equity		**(381,560)**	(306,534)
Total equity and liabilities		**2,496,803**	2,423,318

Consolidated statement of financial position (continued)
as at 31 December 2019

The notes on pages 21 to 60 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: 10783654

Consolidated statement of cash flows
for the year ended 31 December 2019

	Note	Group Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flow from operating activities			
Profit before tax		**31,726**	30,469
Adjustments for:			
- Depreciation	*13*	**176,140**	152,952
- Depreciation of right-of-use assets	*14*	**689**	-
- Write down of inventory	*6*	**225**	206
- Impairment of investments in subsidiary	*20*	**-**	2,835
- Fair value adjustment on derivative financial instrument	*18*	**(5,595)**	(15,067)
- Loss on disposal of property, plant and equipment		**1,845**	16
- Unwinding of capitalised finance charges	*8*	**2,331**	2,598
- Interest expense	*8*	**165,419**	149,879
- Interest income	*7*	**(340)**	(2,194)
- Adjustment for non-cash element of pension charge		**247**	258
Operating cash flow before changes in working capital		**372,687**	321,952
Decrease in finance lease receivables		**917**	865
Decrease in trade and other receivables and contract assets		**5,933**	21,338
Increase/(decrease) in other and contract liabilities		**6,590**	(7,328)
Increase in provisions		**166**	-
Decrease in trade and other payables		**(9,486)**	(10,549)
Cash flow generated by operating activities		**376,807**	326,278
Taxation received		**2,660**	715
Interest received	*7*	**340**	2,194
Net cash generated by operating activities		**379,807**	329,187
Cash flow from investing activities			
Acquisition of property, plant and equipment	*13*	**(409,640)**	(244,346)
Proceeds from disposal of property, plant and equipment		**307**	4
Investment in short-term bank deposits	*22*	**30,000**	220,000
Net cash utilised in investing activities		**(379,333)**	(24,342)
Cash flow from financing activities			
Repayment of lease liability		**(982)**	-
Interest paid on bonds	*25*	**(98,678)**	(98,375)
Interest paid on loan from Eversholt UK Rails Limited	*25*	**(47,891)**	(47,891)
Profit Participating Shares interest paid	*25*	**(293)**	(271)
Interest paid on swaps	*25*	**(14,772)**	(15,735)
Interest paid on bank loans	*25*	**(398)**	-
Other transaction costs paid	*25*	**(1,684)**	(2,362)
External borrowings raised		**85,000**	-
Dividends paid	*30*	**(41,550)**	(40,100)
Net cash (utilised in)/generated by financing activities		**(121,248)**	(204,734)
Net movement in cash and cash equivalents		**(120,774)**	100,111
Net foreign exchange differences		**(1,979)**	-
Cash and cash equivalents at the beginning of the year		**194,716**	94,605
Cash and cash equivalents at the end of the year	*22*	**71,963**	194,716

Consolidated statement of changes in equity
for the year at 31 December 2019

	Note	Share capital £'000	Other reserve £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2018		-	13,672	1,109	(312,105)	(297,324)
Profit for the year		-	-	-	30,935	30,935
Effective portion of changes in fair value of cash flow hedges	*18*	-	-	(2,735)	-	(2,735)
Realised loss on cash flow hedges to Property, plant and equipment	*18*	-	-	2,240	-	2,240
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	*19*	-	-	84	-	84
Actuarial gain on defined benefit scheme after tax		-	-	-	366	366
Total comprehensive (expense)/ income		-	-	(411)	31,301	30,890
Dividend paid	*30*	-	-	-	(40,100)	(40,100)
Balance at 31 December 2018		-	13,672	698	(320,904)	(306,534)
Adjustment in respect of impact of adoption of IFRS 16 Leases	4	-	-	-	**(1,843)**	**(1,843)**
Income tax on adjustment in respect of impact of adoption of IFRS 16 Leases	4	-	-	-	**313**	**313**
Balance as at 1 January 2019			**13,672**	**698**	**(322,434)**	**(308,064)**
Profit for the year		-	-	-	**22,385**	**22,385**
Effective portion of changes in fair value of cash flow hedges	*18*	-	-	**(52,773)**	-	**(52,773)**
Realised loss on cash flow hedges transferred to Income statement	*18*			**710**	-	**710**
Realised gain on cash flow hedges to Property, plant and equipment	*18*	-	-	**(10,816)**	-	**(10,816)**
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	*19*	-	-	**10,689**	-	**10,689**
Actuarial loss on defined benefit scheme after tax		-	-	-	**(2,141)**	**(2,141)**
Total comprehensive (expense)/ income		-	-	**(52,190)**	**20,244**	**(31,946)**
Dividend paid	*30*	-	-		**(41,550)**	**(41,550)**
Balance at 31 December 2019		-	13,672	**(51,492)**	**(343,740)**	**(381,560)**

Dividends of £407,353 per share were paid during the year (2018: £393,137 per share).

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

1 General Information

Eversholt UK Rails (Holding) Limited is a private company incorporated in England and Wales and is limited by shares (see note 28). 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 Basis of consolidation

The Company was incorporated on 22 May 2017 as part of a group reorganisation as a direct subsidiary of Eversholt UK Rails Limited, (itself a direct subsidiary of UK Rails S.A.R.L.) and subsequently acquired 100% of the share capital of Eversholt Investment Limited from Eversholt UK Rails Limited. The sole purpose of the reorganisation was to simplify the corporate structure of the Eversholt UK Rails Group. The reorganisation did not result in any changes to the capital structure of this group.

As UK Rails S.A.R.L. controlled the Company and Eversholt Investment Limited both before and after the group reconstruction, there was no loss of control of the subsidiary undertakings during this restructuring process and so the results of the newly consolidated group headed by the Company have been prepared on the basis that the Group had always existed in its current form.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 "Business Combinations" provided that they are controlled by the same party both before and after the business combination. As a consequence, the integration of the Company has been prepared under merger accounting principles. This does not conflict with IFRS and reflects the economic substance of the transaction. Differences on consolidation arising from the change in the head of group post the reorganisation detailed above are recorded in other reserve. The amount in other reserve comprises the difference between the share capital and share premium from the previous head of the group (Eversholt Investment Limited) and the new head (Eversholt UK Rails (Holding) Limited).

The consolidated financial statements of Eversholt UK Rails (Holding) Limited and its subsidiaries except for Eversholt Rail (365) Limited (the "Group") have been prepared solely for the reporting requirements of the Financing Documents dated 4 November 2010 entered into by certain of the Company's subsidiaries and which the Company acceded to on 28 June 2017.

In accordance with those Financing Documents, the Group's interest in Eversholt Rail (365) Limited has not been consolidated for periods prior to 19 August 2019 but stated at cost less impairment losses, where appropriate. Eversholt Rail (365) Limited was placed into liquidation on 19 August 2019 - see note 20 - and has been derecognised as an investment from that date.

All other subsidiaries are consolidated from the date that the Company gains control. The acquisition method of accounting is used when subsidiaries are acquired by the Group. The cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of completion. Acquisition-related costs are recognised as an expense in the Income statement in the period in which they are incurred. The acquired assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition.

Other than the historical treatment of Eversholt Rail (365) Limited, entities that are controlled by Eversholt UK Rails (Holding) Limited are consolidated until the date that control ceases. All intercompany transactions are eliminated on consolidation, other than transactions with Eversholt Rail (365) Limited.

2.2 Compliance with IFRS

The consolidated financial statements of the Group have been prepared on the historical cost basis except for derivative financial instruments measured at fair value. Except for the disaggregation of Eversholt Rail (365) Limited, these financial statements have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ("IASB") and as endorsed by the European Union ("EU"). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU.

2 Basis of Preparation (continued)

2.2 Compliance with IFRS (continued)

At 31 December 2019, there were no unendorsed standards effective for the year ended 31 December 2019 affecting these consolidated 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 Group.

Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2019 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU, except as noted above.

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.

2.3 Standards and Interpretations issued by the IASB

During the year, the Group 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 4, 14 and 17.

The Group also adopted early the Amendments to IFRS 9, IAS 39 and IFRS 7 in relation to hedge accounting impacts of interest rate benchmark reform. There is no impact on the Group other than additional disclosure set out under notes 33.5.4 and 3.

There were also the following interpretations and amendments to standards which were EU endorsed during 2019 and which had no material effect on the financial statements:

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

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

- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards

2.4 Going concern

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

3 Summary of significant accounting policies

The principal accounting policies adopted are set out below and have been applied consistently to all years presented in these financial statements, except the policy in relation to:

- lease transactions. This policy was implemented with effect from 1 January 2019, following the application of IFRS 16 Leases; and
- amendments to IFRS 9, IAS 39 and IFRS 7 in relation to hedge accounting requirements in the context of interest rate benchmark reform. These have been early adopted.

3.1 Accounting for lease transactions

The Group as lessee

The Group 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 Group recognises lease payments as an operating expense on a straight-line basis.

The lease liability is initially measured at the present value of outstanding lease payments at the commencement date, discounted at the rate implicit in the lease, or the Group'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.

The Group as lessor

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

The Group enters into operating lease arrangements as lessor with respect to rolling stock and other railway assets, classified as Property, plant and equipment (note 13).

3 Summary of significant accounting policies (continued)

3.1 Accounting for lease transactions (continued)

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

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

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

3.2 Finance income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability on initial recognition. When calculating the effective interest rate, the Group 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 Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

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

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

3.3 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.

3 Summary of significant accounting policies (continued)

3.4 Income tax (continued)

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

(a) there is a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income tax levied by the same taxation authority on either:

(i) the same taxable entity; or

(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 Foreign currencies

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

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

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

3.6 Property, plant and equipment

In accordance with IFRS 3 "Business Combinations" the Group restated its rolling stock and other railway assets to their fair value upon acquisition of the Group following a business combination in December 2010.

In the normal course of business, rolling stock and other railway assets are recognised at cost and are depreciated on a straight-line basis over their useful economic lives to their estimated residual value. The useful economic life depends on the class of vehicle and type of asset and ranges from 20 to 40 years. Useful economic lives and carrying values are reviewed at least annually.

In relation to the construction of rolling stock and other railway assets:

i) Progress payments paid to third parties are capitalised.

ii) Interest costs are capitalised to the extent that they are incurred in relation to borrowings, which are attributable to the construction of rolling stock and other railway assets and accrue in respect of the year of construction.

iii) Assets in the course of construction are not depreciated until they are available for use.

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 in the Income statement as detailed in notes 6 and 9.

Assets held under finance leases are depreciated over the expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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.

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

At each reporting date, the Group reviews the carrying value of its rolling stock and railway assets 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.

3.7 Subsidiaries

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

3.8 Financial instruments

Financial assets and financial liabilities are recognised in the Group's Statement of financial position when the Group 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 Group holds the following classes of financial instruments:

Trade and other receivables

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

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

Cash and cash equivalents

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

Financial liabilities

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

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

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 Group 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; and
- Finance lease receivables which are outside the scope of IFRS 9 for classification and measurement purposes, but in the scope for impairment.

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 Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and 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 Group recognises the effective part of any gain or loss on the derivative financial instrument in Other comprehensive income, which is accounted for in the Hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income statement. The effective part of any gain/loss is the lower of:

(a) the cumulative gain or loss on the hedging instrument from hedge inception; and

(b) the cumulative gain or loss in the fair value of hedged item from hedge inception.

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

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

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.

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Foreign currency denominated non derivative financial assets can also be used to manage exposure to foreign exchange rate fluctuations. Where qualifying for hedge accounting, the effective part of exchange differences arising on translating the carrying value of financial assets will be recognised in Other comprehensive income, which is accounted for in the Hedging reserve. Events affecting the hedge relationship are accounted for in the manner as described when the hedging instrument is a derivative.

Interest rate benchmark reform

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

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

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

- The Group has highly probable future fixed funding costs, which it cash flow hedges using GBP LIBOR interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.
- The Group will retain the cumulative gain or loss in the hedge reserve for designated hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

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

Determination of fair value

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

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.

3.9 Statement of cash flows

The Statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under "Operating activities", movements in intercompany balances are shown under the heading of "Financing activities". Such movements arise ultimately from the Group's financing activities, through which the Group will acquire resources intended to generate future income and cash flows.

3.10 Share capital

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

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

3.11 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.

3.12 Retirement benefit obligations

The Group 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 Group at rates assessed by an independent actuary. These contributions are invested separately from the Group's assets.

The Group'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 Group 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 period 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 Group recognises them immediately in Other comprehensive income and all other expenses related to defined benefit plans in administrative expense 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 Group, 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.

3 Summary of significant accounting policies (continued)

3.12 Retirement benefit obligations (continued)

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

3.13 Inventories

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

3.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group 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.

3.15 Preference shares

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

3.16 Use of judgements, estimates and assumptions

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of revision and future years if the revision affects both current and future years.

No significant judgements have been required in the process of applying the Group's accounting policies.

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

The following are the critical estimates and assumptions that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

a. Valuation of defined benefit retirement obligation

In making their estimate of the valuation of the defined benefit pension obligation, the Directors have made a number of assumptions, based on advice from an independent actuary. These assumptions are more fully described in note 32.

b. Value in use of rolling stock assets

The Group undertakes a review of carrying values of its rolling stock assets at least annually.

If there is an indication of impairment of a specific rolling stock fleet, a loss will be recognised to reduce the carrying value to its recoverable value, as determined by its value in use. Value in use is calculated based on the forecast rentals which the assets will generate over their remaining useful economic lives, having regard to the fleet's current and future prospects under a range of re-leasing scenarios. Future rentals are forecast based on past performance, expectation of future performance and market information. Forecast future rentals are discounted assuming a market pre-tax discount rate incorporating the time value of money and asset specific risks.

3.16 Use of judgements, estimates and assumptions (continued)

Critical estimates and assumptions in applying the Group's accounting policies (continued)

Recoverable value is sensitive to changes in the assumptions described above. The table below illustrates the impact of changes in assumptions on recoverable value for the Group's rolling stock fleet as a whole:

	Recoverable value Increase/(decrease)	
	2019 £'000	**2018 £'000**
End of final lease term		
1 year increase	**83,000**	57,700
1 year reduction	**(92,000)**	(64,400)
Projected rentals:		
1% increase	**32,000**	37,000
1% reduction	**(32,000)**	(37,000)
Discount rate:		
0.1% increase	**(33,000)**	(32,000)
0.1% reduction	**34,000**	32,000

The Group, other than above, does not have any other 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.

Financial impact of the initial application of IFRS 16

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

The cumulative effect of adoption is reflected as an adjustment to the opening balance of retained earnings. On transition to IFRS 16, the Group has recognised right-of-use assets of £4,893,000, corresponding lease liabilities of £6,736,000 and deferred tax of £313,000. The net impact of these amounts (£1,530,000) was recognised in retained earnings on 1 January 2019.

In preparing the 2018 comparative statement of financial position, obligations under finance leases have been presented as "Lease Liabilities". These liabilities had been recognised under IAS17.

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

1. £194,000 and £495,000 in "Cost of sales" and "Administrative costs" respectively. These amounts relate to depreciation relating to the Group's right-of-use assets; and
2. £133,000 finance expense, relating to lease liability interest.

4 Implementation of new IFRS Standards (continued)

Financial impact of the initial application of IFRS 16 (continued)

Under IAS 17, rentals of £947,000 (2018: £952,000) 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 £947,000 and an increase in the "Cash flow from financing activities" of £982,000 (outflow).

The Group 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	**7,402**
Present value of IAS 17 operating commitments at 31 December 2018	**6,736**
Lease liabilities recognised on transition to IFRS 16, at 1 January 2019	**6,736**

5 Revenue from contracts with customers

5.1 Revenue information

The Group generates revenue primarily from the rental of rolling stock assets under operating leases and where applicable, from the provision of maintenance services. Total income can be analysed as follows:

	Group	
	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Operating lease rental income	**369,652**	309,824
Finance lease income	**586**	518
Revenue from contracts with customers		
- Maintenance income	**65,561**	57,449
- Other income	**6,765**	7,136
	442,564	374,927

Maintenance income

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 Group and its customers which are adjusted periodically by reference to pricing indices.

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

5 Revenue from contracts with customers (continued)

5.1 Revenue information (continued)

As maintenance expenditure is incurred, the Group 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
	150,000	96,922

Other income

Other income primarily relates to the provision in the UK of asset management services.

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

Performance obligations are expected to be fulfilled in relation to customers in the following periods:

	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
	51,738	50,757

5.2 Contract balances

The following table provides information about contract assets and contract liabilities from contracts with customers.

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

	Group	
	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Contract assets	**4,568**	16,363
Contract liabilities	**23,996**	24,219
Trade receivables	**8,236**	2,730

The contract assets relate to the Group'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.

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

Current year movements on these amounts can be attributed to normal business activity (i.e. the recognition of revenue; maintenance services performed; amounts invoiced; and consideration for services received in advance of performing the maintenance activity). There are no adjustments to performance obligations satisfied in the prior year.

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

6 Cost of sales

	Group Year ended 31 December 2019 £'000	Group Year ended 31 December 2018 £'000
Depreciation – rolling stock	**(175,860)**	(152,606)
Depreciation – right-of-use asset – other railway assets	**(194)**	-
Maintenance cost	**(46,968)**	(32,958)
Write down in the value of inventories	**(225)**	(206)
	(223,247)	(185,770)

7 Finance income

	Group Year ended 31 December 2019 £'000	Group Year ended 31 December 2018 £'000
Bank interest	**340**	2,194

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

8 Finance expense

	Group Year ended 31 December 2019 £'000	Group Year ended 31 December 2018 £'000
Interest payable to Eversholt UK Rails Limited	**(47,891)**	(47,891)
Profit participating preference share dividend	**(259)**	(353)
Interest payable on bank loans	**(443)**	-
Interest payable on bonds	**(93,344)**	(83,431)
Other finance and interest costs	**(5,841)**	(2,371)
Unwinding of capitalised borrowing costs	**(2,331)**	(2,598)
	(150,109)	(136,644)
Finance expense in relation to financial liabilities carried at amortised cost		
Transfer from hedging reserve (note 18)	**(710)**	-
Lease liability interest	**(131)**	-
Interest payable in relation to derivatives	**(16,800)**	(15,834)
Total	**(167,750)**	(152,478)

9 Administrative expense

Administrative expense includes:

	Group Year ended 31 December 2019 £'000	Group Year ended 31 December 2018 £'000
Foreign exchange gain	**19**	384
Depreciation – other assets	**(280)**	(346)
Depreciation – right-of-use assets	**(495)**	-
Defined contribution pension costs	**(798)**	(756)
Fees payable to the Company's auditor for the audit of the Group's annual financial statements	**(305)**	(325)
Fees payable to the Company's auditor		
- For non-audit assurance services	**(34)**	-

Non audit services provided by the auditor comprise of fees in relation to bond prospectus comfort letter.

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

10 Staff numbers and costs

The average number of persons employed by the Group (including Directors of the Company and of its subsidiaries) during the year was as follows:

	Group	
	Year ended 31 December 2019 Number	**Year ended 31 December 2018 Number**
Directors	**4**	3
Operations	**50**	63
Administration	**54**	50
	108	116

The aggregate payroll costs of these persons were as follows:

	Group	
	Year ended 31 December 2019 £'000	**Year ended 31 December 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	**(351)**	(359)
	(14,481)	(14,019)

11 Directors' emoluments

	Group	
	Year ended 31 December 2019 £'000	**Year ended 31 December 2018 £'000**
Directors' emoluments for services to the Group	**(2,124)**	(2,106)

The emoluments of the highest paid Director, including benefits in kind were £962,000 (2018: £984,000). The accrued pension contributions paid by the Group 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.

12 Income tax (charge)/credit

	Note	Group	
		Year ended 31 December 2019 £'000	**Year ended 31 December 2018 £'000**
Current tax			
UK Corporation tax			
- On current year profit		**(5,531)**	396
- On prior years' profit		**(3,629)**	5,103
		(9,160)	5,499
Deferred tax			
Origination and reversal of temporary differences	*19*	**(1,610)**	(5,752)
Change in tax rates	*19*	**213**	700
Adjustment in respect of prior year	*19*	**1,216**	19
		(181)	(5,033)
Income tax (charge)/credit		**(9,341)**	466

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

12 Income tax (charge)/credit (continued)

The UK tax rate applying to the profits was 19% (2018: 19%).

The following table reconciles the tax (charge)/credit which would apply if all profits had been taxed at 19% (2018: 19%).

	Group	
	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit before tax	**31,726**	30,469
Taxation at corporation tax rate 19% (2018: 19%)	**(6,028)**	(5,789)
Change in tax rates	**213**	700
Prior years adjustment	**(2,413)**	5,122
Non-taxable income	**3,637**	3,084
Permanent tax differences	**-**	(22)
Other tax attribute unrecognised	**(4,750)**	(2,629)
Income tax (charge)/credit	**(9,341)**	466

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 a gain of £11,127,000 recognised in total comprehensive income (2018: £9,000 gain). In addition, there was a deferred tax gain of £313,000) recognised as an adjustment to retained reserves at 1 January 2019, as a consequence of IFRS 16 implementation,

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

13 Property, plant and equipment

	Other assets £'000	Rolling stock and other railway assets £'000	Total £'000
Cost			
Balance at 1 January 2018	3,747	2,867,406	2,871,153
Additions	203	261,441	261,644
Disposals	(462)	(4,735)	(5,197)
Balance at 31 December 2018	**3,488**	**3,124,112**	**3,127,600**
Additions	**-**	**404,145**	**404,145**
Disposals	**(141)**	**(51,327)**	**(51,468)**
Balance at 31 December 2019	**3,347**	**3,476,930**	**3,480,277**
Depreciation			
Balance at 1 January 2018	2,962	859,028	861,990
Charge for the year	346	152,606	152,952
Disposals	(452)	(4,725)	(5,177)
Balance at 31 December 2018	**2,856**	**1,006,909**	**1,009,765**
Charge for the year	**280**	**175,860**	**176,140**
Disposals	**(139)**	**(49,177)**	**(49,316)**
Balance at 31 December 2019	**2,997**	**1,133,592**	**1,136,589**
Carrying value at 31 December 2019	**350**	**2,343,338**	**2,343,688**
Carrying value at 31 December 2018	632	2,117,203	2,117,835

13 Property, plant and equipment (continued)

The cost of tangible fixed assets at 31 December 2019 includes capitalised interest of £45,097,000 (2018: £39,892,000). The capitalisation rate used is the rate of interest attaching to the Group's borrowings attributable to the acquisition of rolling stock, see note 24 for more details. Cost includes rolling stock in the course of construction of £549,646,000 (2018: £676,516,000).

Other assets relate to equipment, fixtures and fittings.

The depreciation charge on rolling stock and other railway assets is included within cost of sales in the Income statement. The depreciation on other assets is included in administrative expense.

2019 additions includes a credit from Other comprehensive income of £10,816,000 (2018: £2,240,000 debit), Bank loan capitalised interest of £116,000 (2018: £97,000) and Bond capitalised interest of £5,205,000 (2018: £14,960,000).

Substantially all rolling stock and other railway assets are subject to operating lease arrangements.

14 Right-of-use assets

	Land and buildings £'000	Plant and equipment £'000	Other railway assets £'000	Total £'000
As at 1 January 2019 – recognised on adoption of IFRS 16	2,848	-	2,045	4,893
Additions	75	25	-	100
Depreciation charge	(487)	(8)	(194)	(689)
As at 31 December 2019	**2,436**	**17**	**1,851**	**4,304**

15 Finance lease receivables

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

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

The Group has entered into a finance leasing arrangement for one of its depots. This lease is due to expire in 5 years' time.

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

15 Finance lease receivables (continued)

Finance lease receivable balances are secured over the depot. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

The interest rates inherent in the leases are fixed at the contract date for all of the lease terms. The average effective interest rates contracted are between 6% and 10% (2018: 6% and 10%) per annum.

The maximum exposure to credit risk of finance lease receivables for the current and prior periods is the carrying amount. The finance lease receivables are not past due and not impaired in the current or prior year.

16 Trade and other receivables

	Group	
	2019	**2018**
	£'000	**£'000**
Trade receivables	**8,236**	2,730
Other receivables	**2,474**	2,118
	10,710	4,848

17 Lease liabilities

	Land and buildings £'000	Plant and equipment £'000	Other railway assets £'000	Total £'000
As at 1 January 2019 – recognised on adoption of IFRS 16	4,146	-	2,590	6,736
Additions	75	25	-	100
Interest charge	81	-	50	131
Payments	(726)	(7)	(249)	(982)
As at 31 December 2019	**3,576**	**18**	**2,391**	**5,985**

Total lease liabilities can be analysed as follows:

	31 December 2019 £'000
Current	**820**
Non-current	**5,165**
	5,985

Maturity of lease liabilities

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

	31 December 2019 £'000
Current	**937**
In more than one year but not more than two years	873
In more than two years but not more than five years	3,151
In more than five years	1,598
Non-Current	**5,622**

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

18 Derivative financial instruments

The fair values of the derivative financial instruments are as follows:

31 December 2019	Notional Amount	Fair Value Amount	Change in fair value used for calculating hedge ineffectiveness
	£'000	£'000	£'000
Non-current assets			
Interest rate swap contracts	292,010	21,821	-
Current liabilities			
FX forward contracts – hedge accounted	10,706	(458)	(21,977)
Interest rate swap contracts	300,000	(286)	-
	310,706	(744)	(21,977)
Non-current liabilities			
Interest rate swap contracts	539,507	(121,597)	-
Interest rate swap contracts – hedge accounted	300,000	(49,616)	(29,304)
	839,507	(171,213)	(29,304)
Total liabilities	1,150,213	(171,957)	(51,281)
Total derivative financial instruments	1,442,223	(150,136)	(51,281)

31 December 2018	Notional Amount	Fair Value Amount	Change in fair value used for calculating hedge ineffectiveness
	£'000	£'000	£'000
Non-current assets			
Interest rate swap contracts	46,000	1,779	-
FX forward contracts – hedge accounted	193,786	21,519	(6,389)
	239,786	23,298	(6,389)
Non-current liabilities			
Interest rate swap contracts	724,895	(107,923)	-
Interest rate swap contracts – hedge accounted	300,000	(20,312)	3,602
	1,024,895	(128,235)	3,602
Total derivative financial instruments	1,264,681	(104,937)	2,787

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

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

18 Derivative financial instruments (continued)

Movement in fair value of Derivative financial instruments

	Foreign exchange forward contracts	Interest rate swap contracts		
	Current hedge accounted	Not hedge accounted	Current hedge accounted	Total
	£'000	£'000	£'000	£'000
Balance as at 1 January 2019	**21,519**	**(106,144)**	**(20,312)**	**(104,937)**
Unrealised gain through the Income statement				
- Hedge ineffectiveness	**467**	**-**	**(954)**	**(487)**
- Other	**-**	**6,082**	**-**	**6,082**
	467	**6,082**	**(954)**	**5,595**
Unrealised loss through Other comprehensive income	**(22,444)**	**-**	**(28,350)**	**(50,794)**
Balance as at 31 December 2019	**(458)**	**(100,062)**	**(49,616)**	**(150,136)**
Balance as at 1 January 2018	27,908	(121,263)	(23,914)	(117,269)
Unrealised gain through the Income statement				
- Hedge ineffectiveness	134	-	(186)	(52)
- Other	-	15,119	-	15,119
	134	15,119	(186)	15,067
Unrealised (loss)/gain through Other comprehensive income	(6,523)	-	3,788	(2,735)
Balance as at 31 December 2018	21,519	(106,144)	(20,312)	(104,937)

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

Movement in Hedging reserve

	Foreign exchange forward contracts		Interest rate swap contracts		
	Current hedge accounted	Terminated hedge accounted	Current hedge accounted	Terminated hedge accounted	Total
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2019	**(19,549)**	**(2,510)**	**16,418**	**4,943**	**(698)**
Unrealised loss through Other comprehensive income	**22,444**	**-**	**28,350**	**-**	**50,794**
Revaluation of EUR cash deposits through Other comprehensive income	**1,979**	**-**	**-**	**-**	**1,979**
Effective portion of changes in fair value of cash flow hedges	**24,423**	**-**	**28,350**	**-**	**52,773**
Release to Property, plant and equipment	**8,020**	**3,375**	**-**	**(579)**	**10,816**
Transfer between categories	**264**	**(264)**	**-**	**-**	**-**
Release to Income statement	**-**	**-**	**-**	**(710)**	**(710)**
Income tax on Other comprehensive income	**(5,560)**	**(529)**	**(4,820)**	**220**	**(10,689)**
Balance as at 31 December 2019	**7,598**	**72**	**39,948**	**3,874**	**51,492**
Balance as at 1 January 2018	(23,052)	(3,303)	19,562	5,684	(1,109)
Unrealised loss/(gain) through Other comprehensive income	6,523	-	(3,788)	-	2,735
Release to Property, plant and equipment	(2,149)	802	-	(893)	(2,240)
Transfer between categories	(153)	153	-	-	-
Income tax on Other comprehensive income	(718)	(162)	644	152	(84)
Balance as at 31 December 2018	(19,549)	(2,510)	16,418	4,943	(698)

18 Derivative financial instruments (continued)

18.1 Foreign exchange forward contracts

During the year the Group entered into a new foreign exchange forward contract to hedge the variability in functional currency equivalent cash flows associated with committed EUR denominated capital expenditure. On inception, the contract was designated in a hedge accounting relationships.

Foreign exchange forward contracts are expected to mature with the following profile:

Maturity	Notional Value £'000
Within 1 year	**10,706**

As at 31 December 2019, the designated hedges were deemed to be highly effective and the fair value liability of the foreign exchange forward contracts was £458,000 (31 December 2018: assets of £21,519,000).

Hedge ineffectiveness of £467,000 loss (2018: £134,000 loss) comprised the difference between the change in the fair value of the:

- hedged item used as a basis of recognising hedge ineffectiveness of £22,444,000 gain (2018: £6,523,000 gain); and
- foreign exchange forward contracts used as a basis of recognising hedge ineffectiveness of £21,977,000 loss (2018: £6,389,000 loss).

Hedge ineffectiveness is attributable to differences between actual and expected dates of cashflows relating to EUR denominated capital expenditure. Expected dates are established when capital commitments first arise and they are used in setting the terms of the related foreign exchange contracts.

The hedging reserve contains balances relating to outstanding and terminated derivative contracts, where the hedged future cashflows are still expected to occur.

Cumulative unrealised losses relating to contracts terminated during the year ended 31 December 2016 remain in other comprehensive income. During the year a gain of £11,395,000 (2018: £1,346,000 loss) was realised in property, plant and equipment additions; the residual gain recognised in other comprehensive income will amortise to property, plant and equipment in line with the payment profile of the hedged capital expenditure.

When foreign exchange forward contracts have settled before the committed EUR denominated capital expenditure has been incurred, related EUR cash deposits continue to hedge related commitments. Being part of a hedge accounting relationship and equal in principal to the amount of commitments, exchange differences of £1,979,000 arising on translating the EUR cash deposits to sterling, are wholly recognised in the Hedging reserve. These are included in the Movement in Hedging reserve table above under the heading of "Revaluation of EUR cash deposits through Other comprehensive income". See note 33.5 for details of foreign exchange risk management.

18.2 Interest rate swap contracts

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

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

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

18 Derivative financial instruments (continued)

18.2 Interest rate swap contracts (continued)

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

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

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

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

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

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

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

See note 33 for details of interest rate risk management.

18.3 Replacement of LIBOR as an interest rate benchmark

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

19 Deferred tax

Deferred tax assets and liabilities are offset where the Group meets the relevant criteria (see note 3). The following is the analysis of the deferred tax balances:

	Group	
	2019	**2018**
	£'000	**£'000**
Deferred tax liabilities	**75,364**	81,990
Deferred tax assets	**(33,822)**	(29,189)
	41,542	52,801

In assessing the recoverability of deferred tax assets, the Group 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 Group 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.

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

19 Deferred tax (continued)

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

	Capital Allowances	Provision	Fair value of derivatives	Retirement benefit obligations	Tax losses	Other tax attributes	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 January 2018	76,623	(601)	(21,632)	(659)	(5,954)	-	47,777
Charge/(credit) to Income Statement	4,770	(65)	2,837	(49)	-	(1,741)	5,752
(Credit)/charge to other comprehensive income	-	-	(84)	84	-	-	-
Effect of change in tax rate:							
- Income Statement	(596)	7	(299)	5	-	183	(700)
- Other comprehensive income	-	-	-	(9)	-	-	(9)
Prior year adjustments	(19)	-	-	-	-	-	(19)
At 31 December 2018	80,778	(659)	(19,178)	(628)	(5,954)	(1,558)	52,801
(Credit)/charge to Income Statement	**(4,042)**	**329**	**984**	**(47)**	**4,340**	**46**	**1,610**
Credit to other comprehensive income	**-**	**-**	**(10,689)**	**(490)**	**-**	**-**	**(11,179)**
Effect of change in tax rate:							
- Income statement	**381**	**(34)**	**(103)**	**5**	**(457)**	**(5)**	**(213)**
- Other comprehensive income	**-**	**-**	**-**	**52**	**-**	**-**	**52**
Adjustment in respect of IFRS 16	**-**	**-**	**-**	**-**	**-**	**(313)**	**(313)**
Prior year adjustments	**(1,753)**	**(57)**	**-**	**-**	**(964)**	**1,558**	**(1,216)**
At 31 December 2019	**75,364**	**(421)**	**(28,986)**	**(1,108)**	**(3,035)**	**(272)**	**41,542**

20 Investments in subsidiary

	Group	
	2019	**2018**
	£'000	**£'000**
Cost as at 31 December 2019	**-**	-

The Company's investment in Eversholt Rail (365) Limited was fully impaired at 31 December 2018 and therefore had no carrying value.

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

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

20 Investments in subsidiary (continued)

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

* Indirect subsidiaries

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

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

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

The results of Eversholt Rail (365) Limited were excluded from the consolidation for periods prior to 19 August 2019.

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

21 Inventory

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

Write down in the value of inventories recognised during the year was £225,000 (2018: £206,000) (note 6). Stock is measured at the lower of cost and net realisable value.

22 Cash and cash deposits

Cash and cash deposits are analysed as:

	Group	
	2019 **£'000**	**2018** **£'000**
Cash	**71,963**	124,716
Cash demand deposits	**-**	70,000
Cash and cash equivalents	**71,963**	194,716
Short-term bank deposits	**-**	30,000
Cash and cash deposits	**71,963**	224,716

Within cash and cash equivalents there is a deposit of £2,600,000 (2018: £2,600,000) which is restricted as it provides security for the Profit Participating Shares issued by a subsidiary. £500,000 of cash and cash equivalents (2018: £500,000) is restricted cash in line with the terms of an agreement with the security trustee for the Group's secured creditors.

23 Trade and other payables

	Group	
	2019	**2018**
	£'000	**£'000**
Trade payables	**13,091**	13,244
Lease rentals received in advance	**14,125**	9,812
Maintenance, acquisition and administrative accruals	**28,196**	31,247
Other accruals	**221**	359
	55,633	54,662

24 Borrowings

	Group	
	2019	**2018**
	£'000	**£'000**
Current		
Interest accrued	**23,291**	21,266
Bonds	**300,000**	-
Bank loans	**85,000**	-
Transaction costs	**(630)**	(646)
	407,661	20,620
Non-current		
Bonds	**1,640,000**	1,940,000
Other loan	**5,999**	5,883
Transaction costs	**(4,390)**	(5,021)
Profit Participating Shares	**2,500**	2,500
Loan from Eversholt UK Rails Limited	**340,562**	340,562
	1,984,671	2,283,924
	2,392,332	2,304,544

The Group finances itself using a Common Documents platform. This means that all covenants on the performance and management of the Group apply to all Senior lenders. Failure to comply with these may result in Bank loans and Bonds being repayable on demand. The Group was in compliance with the covenants during 2019 and 2018.

All Senior lenders are secured against substantially all of the Group's assets by way of fixed and floating charges. The security is held by The Law Debenture Trust Corporation plc (in its capacity as Security Trustee). The Group is not permitted to create additional security over its assets apart from in limited circumstances that have been agreed with its financiers.

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

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

None of the Bonds are puttable.

Notes to the annual financial statements (continued)

for the year ended 31 December 2019

24 Borrowings (continued)

The Profit Participating Shares ("PPS") carry a right to quarterly dividends. The PPS dividend has two parts. The first part confers a right to a LIBOR based return. The second part confers a right to 0.1% of post-tax profits arising in the issuing company during the reference period. The PPS are classified as a non-current liability as the holders of these shares have a fixed entitlement to a dividend.

The loan from Eversholt UK Rails Limited is unsecured and carries a fixed rate of interest. The Group's rights under this subordinated loan agreement (including its right to repayment) are subject to the terms of the Financing Documents.

Maturity of borrowings

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

	Group	
	2019 £'000	2018 £'000
In more than one year but not more than two years	20,285	300,000
In more than two years but not more than five years	85,714	77,312
In more than five years	1,883,062	1,911,633
Transaction costs	(4,390)	(5,021)
	1,984,671	2,283,924

25 Reconciliation of liabilities arising from financing activities

31 December 2019	As at 31 December 2018 £'000	Non-cash finance expense £'000	Cash Flows receipts/ (payments) £'000	As at 31 December 2019 £'000
Financing activities attributable to:				
Liabilities				
Bond interest accrued*	20,427	98,549 *	(98,678)	20,298
Swap Interest accrued	839	16,800	(14,772)	2,867
Bank loan interest accrued	-	443	(398)	45
Bank loans	-	-	85,000	85,000
Profit Participating Share dividends	115	259	(293)	81
Bonds	1,940,000	-	-	1,940,000
Profit Participating shares	2,500	-	-	2,500
Loan from Eversholt UK Rails Limited	340,562	47,891	(47,891)	340,562
Other loan	5,883	116 **	-	5,999
	2,310,326	164,058	(77,032)	2,397,352
Assets				
Capitalised transaction costs	(5,667)	2,331	(1,684)	(5,020)

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

25 Reconciliation of liabilities arising from financing activities (continued)

31 December 2018	As at 31 December 2017 £'000	Non-cash finance expense £'000	Cash Flows receipts/ (payments) £'000	As at 31 December 2018 £'000
Financing activities attributable to:				
Liabilities				
Bond interest accrued	20,411	98,391 *	(98,375)	20,427
Swap Interest accrued	740	15,834	(15,735)	839
Profit Participating Shares	33	353	(271)	115
Bonds	1,940,000	-	-	1,940,000
Profit Participating shares	2,500	-	-	2,500
Loan from Eversholt UK Rails Limited	340,562	47,891	(47,891)	340,562
Other loan	5,786	97**	-	5,883
	2,310,032	162,566	(162,272)	2,310,326
Assets				
Capitalised transaction costs	(5,903)	2,598	(2,362)	(5,667)

*Bond interest includes capitalised interest of £5,205,000 (2018: £14,960,000) transferred to Property, plant and equipment (see note 13).

**Interest is capitalised within Property, plant and equipment (see note 13).

26 Other liabilities

Other liabilities represent amounts charged to customers under current contracts in relation to their share of future rolling stock maintenance costs after the expiry of the current lease. These amounts will be paid out over the course of future leases, as yet unidentified, to future lessees who will undertake the future rolling stock maintenance. Such amounts will never be recognised as revenue in the Group's income statement and can be analysed as follows:

	Group	
	2019 £'000	2018 £'000
Current	**5,624**	4,485
Non-current	**124,740**	116,323

27 Provisions

	Group	
	2019 £'000	2018 £'000
Current	**40**	35
Non-current	**161**	-
	201	35

Provision relates to dilapidations on office buildings.

	Total 2019 £'000	Total 2018 £'000
Balance at beginning of the year	**35**	35
Additions	**166**	-
Utilised	**-**	-
Balance at the end of the year	**201**	35

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

28 Share capital

	Company 2019 £	Company 2018 £
Authorised		
102 Ordinary shares of £1 each (2018: 102)	**102**	102
Allotted, called up and fully paid		
102 Ordinary shares of £1 each (2018: 102)	**102**	102

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

29 Capital commitments

In respect of rolling stock capital expenditure:

	Group 2019 £'000	Group 2018 £'000
Authorised and contracted	**164,761**	573,733

The above represents all capital commitments.

30 Dividends

For the year ended 31 December 2019 dividends of £41,550,000 were paid (2018: £40,100,000).

31 Financial instruments

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

Group

31 December 2019	Note	Carrying amount £'000	Fair value Level 1 £'000	Fair value Level 2 £'000	Fair value Level 3 £'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	18	21,821	-	21,821	-
Finance lease receivables	15	5,416	-	-	-
Trade and other receivables	16	10,710	-	-	-
Cash and cash deposits	22	71,963	-	-	-
Total Financial assets		109,910			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	18	171,957	-	171,957	-
Non-derivative instruments					
- Publicly traded bonds	24	1,500,000	1,745,034	-	-
- Fixed rate borrowings	24	340,000	-	372,317	-
- Other borrowings	24	557,352	-	-	-
- Trade and other payables	23	55,633	-	-	-
Total financial liabilities		2,624,942			
Total financial instruments		(2,515,032)			

31 Financial instruments (continued)

Group

31 December 2018	Note	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	18	23,298	-	23,298	-
Finance lease receivables	15	6,333	-	-	-
Trade and other receivables	16	4,848	-	-	-
Cash and cash deposits	22	224,716	-	-	-
Total Financial assets		259,195			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	18	128,235	-	128,235	-
Non-derivative instruments					
- Publicly traded bonds	24	1,500,000	1,688,189	-	-
- Fixed rate borrowings	24	340,000	-	343,153	-
- Other borrowings	24	470,211	-	-	-
- Trade and other payables	23	54,662	-	-	-
Total Financial liabilities		2,493,108			
Total financial instruments		(2,233,913)			

Carrying value is regarded as a reasonable approximation of fair value, when this is not provided in the above table.

32 Retirement benefit obligations

32.1 General description of scheme

Final salary pension

Eversholt Rail Limited a group undertaking, 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 Eversholt Rail Limited.

The Section is a shared cost arrangement whereby Eversholt Rail Limited is only responsible for a share of the cost. The figures reported below therefore represent only Eversholt Rail Limited'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.

Eversholt Rail Limited 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.

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

32 Retirement benefit obligations (continued)
32.1 General description of scheme (continued)

- 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 Eversholt Rail Limited if no agreement can be reached between the Trustee and that company.

32.2 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
Pensioner members (including dependants)		
Number	**51**	49
Estimated annual pension payroll (£'000)	**1,316**	1,220
Average age	**67.8**	67.2

32.3 Summary of assumptions

	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 *	**2.95**	3.20

*plus 0.4% pa promotional salary scale.

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

32 Retirement benefit obligations (continued)
32.3 Summary of assumptions (continued)

Section assets	Value at 31 December 2019 £'000	Value at 31 December 2018 £'000
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

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

32.4 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

32.5 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

32.6 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

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

32 Retirement benefit obligations (continued)

32.7 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)

32.8 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

32.9 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 32.8 and 32.9 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 Group's share of the assets and liabilities associated with the section.

32.10 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 32.4 and reflect a reasonable approximation of possible changes.

32 Retirement benefit obligations (continued)

32.10 DBO sensitivity analysis to significant actuarial assumptions (continued)

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.

33 Risk management

The Group has exposure to the following types of risk arising from its use of financial instruments: capital risk, liquidity risk and market risk. Market risk includes interest rate risk and foreign exchange risk. In addition, the Group is exposed to residual value risk from its ownership of rail assets and credit risk from leasing arrangements.

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 3.16.

The management of all risks which are significant, together with the quantitative disclosures not already included within the Strategic report, is described in this note.

33.1 Residual value risk

One of the key drivers of the Group's ability to generate the desired return from its assets is the management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the current lease terms (the "residual values") differ from those projected at the inception of the leases. The Group regularly monitors residual value risk exposure by considering the re-leasing potential of its assets. Provision is made to the extent that the carrying values of leased assets exceed the recoverable value.

The Group seeks to maximise the reletting potential, and therefore the residual value, of its assets by active management of the technical and commercial utility of these assets.

An assessment is carried out by management at least annually of the commercial value of all operating lease assets, measured as the present value of the net anticipated cash flows arising from ownership over life. This assessment is based on the Group's knowledge of the assets and the rolling stock leasing market.

This assessment provides a basis for measuring the success of the Group in managing its assets, as well as for determining if that value is below the current book value and therefore an impairment provision might be needed.

The Group's asset engineering team regularly visits the operating depots for the purpose of vehicle inspection and technical investigation. The Group has an excellent knowledge of the current condition of the fleet.

The Group has a specialist in-house inspection team who consider whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis.

The Group's fleet performance is constantly monitored for emerging trends that might indicate that the fleet has developed a problem. In addition, the Group works proactively with the train operator to identify opportunities to improve the performance of the fleet. The Group maintains constant dialogue with the train operator on fleet performance so that any emerging issues can be dealt with quickly.

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

33 Risk management (continued)

33.2 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 Group consists of debt and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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

33.3 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 Group's principal credit exposures arise from the obligations of lessees to make lease rental payments; from the obligations of suppliers under contracts for services and supplies; and from the ability of bank counterparties to return cash and cash deposits placed with them, to fulfil commitments and to meet obligations under lending and derivative financial instruments.

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

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

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, contract assets and lease receivables under IFRS 9. In relation to other financial assets, the Group 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 Group'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 Group 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 Group 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 Group and existence of previous financial difficulties).

33 Risk management (continued)

33.3 Credit risk management (continued)

The Group's principal exposure to credit risk as at 31 December 2019 amounts to the balance of Trade and other receivables as disclosed in note 15, Contract assets as disclosed in note 5.2, Finance lease receivables as disclosed in note 15, Derivative financial instruments assets disclosed in note 18 and Cash and cash deposits as disclosed in note 22. The carrying amounts of financial assets, lease receivables and contract 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 Group 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 Group and is regarded as appropriate, having regard to the nature of the Group'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.

The Group will write off a financial asset where there is no realistic prospect of the financial asset being recovered. In light of the above and having regards to requirement of IFRS 9, the Group considers that no ECL is required at 1 January 2019 or at 31 December 2019.

33.4 Liquidity risk management

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

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

Only the derivative financial instruments are measured subsequent to initial recognition at fair value. All derivative financial instruments are grouped into level two, based on the degree to which the fair value is observable. Level two fair value measurements are those derived from inputs other than quoted prices that are observable from active markets either directly or indirectly.

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

33 Risk management (continued)

33.4 Liquidity risk management (continued)

Undiscounted cash flows in respect of financial assets and financial liabilities are analysed below by their contractual due date:

Group

	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						
Finance lease receivables	5,416	6,446	-	1,381	5,065	-
Trade and other receivables	10,710	10,710	-	10,710	-	-
Derivative financial instrument	21,821	7,135	-	1,824	3,731	1,580
Cash and cash deposits	71,963	71,963	68,863	-	-	3,100
	109,910	96,254	68,863	13,915	8,796	4,680
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	171,957	192,853	-	21,554	67,321	103,978
Amortised cost						
- Trade and other payables	55,633	55,633	-	55,633	-	-
- Borrowings	2,397,352	3,485,385	-	506,479	423,684	2,555,222
	2,624,942	3,733,871	-	583,666	491,005	2,659,200
Total financial instruments	(2,515,032)	(3,637,617)	68,863	(569,751)	(482,209)	(2,654,520)

Group

	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						
Finance lease receivables	6,333	7,828	-	1,381	5,525	922
Trade and other receivables	4,848	4,848	-	4,848	-	-
Derivative financial instrument	23,298	28,118	-	21,787	4,498	1,833
Cash and cash deposits	224,716	224,716	191,616	30,000	-	3,100
	259,195	265,510	191,616	58,016	10,023	5,855
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	128,235	144,452	-	16,932	59,317	68,203
Amortised cost						
- Trade and other payables	54,662	54,662	-	54,662	-	-
- Borrowings	2,310,211	2,912,726	13,695	97,040	354,222	2,447,769
	2,493,108	3,111,840	13,695	168,634	413,539	2,515,972
Total financial instruments	(2,233,913)	(2,846,330)	177,921	(110,618)	(403,516)	(2,510,117)

33.5 Market risk management

33.5.1 Foreign exchange risk

The Group hedges against foreign exchange risk on its EUR denominated capital expenditure as described in note 18.

33 Risk management (continued)

33.5 Market risk management (continued)

33.5.2 Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at fixed and floating interest rates. The risk is managed by the Group to maintain an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with the hedging strategy.

	Group	
	2019	**2018**
	£'000	**£'000**
Fixed rate instruments		
Financial liability	**(2,180,562)**	(2,180,562)
Variable rate instruments		
Financial assets	**5,416**	6,333
Financial liability	**(193,499)**	(108,383)
	(188,083)	(102,050)

33.5.3 Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in a decrease in interest expense of £487,000 (2018: £820,000) and an increase in cash deposit interest received of £753,000 (2018: £1,786,000). The interest rate sensitivity analysis has been prepared using the present value of cash flows using different interest rates. 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.

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

33.5.4 Approach to hedging

Consistent with prior years, the Group uses interest rate swaps and foreign exchange contracts to manage its interest rate and foreign currency risk.

The Group holds foreign exchange forward contracts to hedge the variability in sterling cash flows associated with committed EUR denominated capital expenditure. Where contracts settle before expenditure is incurred, foreign exchange deposits continue to hedge this variability.

The Group borrows funds that carry a floating rate of interest. In addition, the Company seeks to fix the interest rate payable on future borrowings required to fund committed future and actual capital expenditure and hence hedging variability in cashflows inherent in highly probable forecast fixed funding costs. Interest rate swaps are used/will be used to manage interest rates exposure by swapping variable for fixed payments of interest on a notional amount of funding consistent with the principal, maturities and reference interest rates included in the related funding.

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

33 Risk management (continued)

33.5.4 Approach to hedging (continued)

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

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

Interest rate benchmark reform:

The Group is exposed to GBP LIBOR within its hedge accounting relationships and this is subject to interest rate benchmark reform.

As listed in note 18, the hedged items are highly probable future fixed funding costs, relating to borrowings required to fund committed future and actual capital expenditure incurred by group undertakings. The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including, for example, the Financial Conduct Authority (FCA)) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to GBP LIBOR.

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

Each of the interest rate swaps included in the analysis set out in note 18 and described as hedged accounted, will be affected by these IFRS 9 amendments. The notional value of these instruments is disclosed in note 18.

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the GBP LIBOR reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference GBP LIBOR are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall back clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

The Group also has borrowings that have GBP LIBOR as a reference rate, but these are not part of hedge accounting relationships. The Group's forward foreign exchange contracts will settle in 2020 and hence will not be affected by GBP Libor changes in any way.

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34 Operating lease arrangements

The Group as lessor:

The Group has contracts with lessees in relation to rolling stock and depots. At the reporting date, the outstanding commitments for future undiscounted lease payments to be received under operating leases are as follows:

	Group	
	2019 **£'000**	**2018** **£'000**
Within one year	**346,554**	262,457
2-5 years	**740,492**	343,935
Over 5 years	**39,104**	80,128
	1,126,150	686,520
Aggregate operating lease rentals receivable in the year	**443,318**	382,322

The Group as lessee:

The Group has subleases of certain right-of-use assets in relation to land and has recognised income of £268,000 during the year.

35 Related-party transactions

35.1 Identity of related parties

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.

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

210 Pentonville Road
London
N1 9JY
United Kingdom

The Group had a related party relationship with its subsidiary Eversholt Rail (365) Limited for periods prior to 19 August 2019, the Group's interest in which is not consolidated in these financial statements.

35 Related-party transactions (continued)

35.2 Transactions with related parties

The loan with Eversholt UK Rails Limited is more fully described in note 24. Interest on this loan is disclosed in note 8.

The Group received fees of £9,562,036 (2018: £9,160,222) during the year for the provision of maintenance procurement and management services to Eversholt Rail (365) Limited. Amounts owed by and payments made to Eversholt Rail (365) Limited are shown in the Consolidated statement of financial position and Consolidated statement of cash flows respectively.

The Group was charged a management service fee of £120,000 (2018: £120,000) by Eversholt UK Rails Limited during the year.

35.3 Remuneration of key management personnel

	Group	
	2019	**2018**
	£'000	**£'000**
Short-term employment benefits	**1,881**	1,689
Other long-term employment benefits	**296**	406
	2,177	2,095

Directors' emoluments are disclosed in note 11.

36 Contingent liabilities

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

37 Subsequent events

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