Eversholt UK Rails (Holding) Limited
(Security group)

Non-statutory annual report and financial statements
for the year ended 31 December 2020

Registered No: 10783654

Annual report and financial statements
for the year ended 31 December 2020

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for the year ended 31 December 2020

CEO Foreword

2020 has been a year of significant challenge for us all due to the impact of COVID-19. In spite of the challenges, our customers, suppliers and employees have reacted positively and performed well. I am pleased that our business model has proved resilient, allowing us to meet the needs of our stakeholders and progress projects to deliver improvements in the future. Such projects include transforming our business processes and developing plans to support rail industry decarbonisation. We are working with the wider rail industry to be ready to support increasing service levels as the pandemic is brought under control and ensuring that passengers feel safe and confident in travelling by rail.

Despite the challenges in the year, we have delivered capital rental growth of 5.6% (2019: 19.3%), resulting from the introduction of new fleets over the course of 2019 and 2020. Our fleet utilisation of 97.6% (2019: 99.1%) is slightly down on prior year reflecting vehicles in storage for future opportunities.

During the year, Network Rail launched its Traction Decarbonisation Network Strategy (“TDNS”). The TDNS calls for the removal of diesel-only trains by 2040 in England and Wales, an additional 12,000 kilometres of electrified track by 2050 and the introduction of zero emission trains. While more work is still needed, in particular the development of regional delivery plans, it looks to deploy solutions where they can be most effectively used. This strategy will support and inform policy and funding decisions on what needs to be achieved and when. It highlights that the Rail Sector and its decarbonisation strategy is essential in helping Britain “build back better” and meeting the UK Government’s net-zero target for carbon emissions by 2050.

We have progressed a number of projects to develop low-carbon rolling stock solutions that can support the decarbonisation of the rail industry. We are partnering with a number of stakeholders to champion innovation with projects such as the introduction of Very Light Rail technology and the Class 600 hydrogen train fleet programme.

The importance of a strong working relationship between the rail sector and government has never been greater. In September, the UK Government announced the end of rail franchising and its intention to reform the rail industry. Private rolling stock leasing companies, such as Eversholt Rail, will continue to play an important role in delivering efficient and effective passenger services.

The pandemic has also highlighted further the importance of sustainable business practices. Although Eversholt Rail only employs 107 people, we take the safety and development of every one of our team very seriously. Training offered to employees has been adapted to enable remote learning and we have increased our focus on staff wellbeing. We are also mindful of our responsibilities to society, we continue to actively support a number of charities and organisations.

Looking ahead, Eversholt Rail’s strong and supportive shareholders and our disciplined approach to growth ensures that we are well positioned to take advantage of changes in our sector.

I would like to thank everyone at Eversholt Rail for their hard work and commitment in 2020 and all of our key stakeholders for their continued support. There is still much more to do at Eversholt Rail, but I am confident in the work being undertaken to drive the business towards long-term, sustainable growth.

Strategic report (continued)
for the year ended 31 December 2020

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 the results for Eversholt Rail (365) Limited.

1. Principal activities

The principal activity of the Group is to own and lease rolling stock and other rail assets in the United Kingdom. We own a diverse range of passenger rolling stock including regional, commuter and high speed passenger trains as well as freight locomotives. Our rolling stock is leased to train operating companies (“TOCs”) and freight operating companies (“FOCs”). Most TOCs are granted contracts 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. Notwithstanding recent short term lease extensions due to forthcoming changes to the rail franchising model and COVID-19, 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 our employees, projects and manufacturers, creating and securing jobs and fostering skills across the UK.

2. Strategy

Our strategy is to retain and improve our position as a leading rolling stock leasing company and to develop opportunities for further growth in the transport sector. Our corporate vision is “To be recognised as an expert provider of transport asset financing and asset management for the long term”. This is supported by the six themes that underpin our strategy:

Maintain Value	Maximise asset utilisation, continuously reviewing and developing our assets to meet future requirements and demand
Enhance Value	Invest to enhance the attractiveness of the fleet to rail operators
Add Value	Grow the portfolio by disciplined purchase of new and in-service fleets and other rail related assets / infrastructure
Great Trains	Through life asset management focussed on safety and train performance
Great People	Maintain investment in the development and growth of our people
Great Future	Strong and stable shareholders with appetite to grow

Section 4 below describes the progress achieved in 2020, including where relevant details of key performance measures, against the six strategic themes.

3. Business environment

3.1 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). 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 operating companies.

3. Business environment (continued)

3.1 UK rail industry (continued)

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. Until September 2020 this was on the basis of franchises awarded by the relevant franchising authority through a competitive tender process.

In September, and as part of its continued response to the COVID-19 pandemic, the UK Government introduced Emergency Recovery Management Agreements ("ERMAs") that provide financial support to most train operating companies by accepting the risk associated with passenger revenue.

Each of the affected train operating companies are expected to agree "appropriate terms" with the DfT by the end of March 2021 (extended from December) to terminate the previous franchise agreements. If 'appropriate terms' are not agreed by the end of March, the original franchise terms apply, which may result in franchise default. In the event of default, the Operator of Last Resort ("OLR") would be expected to take over running of services in the interim to maintain continuity of rail service provision.

Some train operating companies operating in England which had franchises ending after the start of the COVID-19 pandemic are operating under different arrangements.

Transport Scotland has made separate arrangements with its incumbent operator, extending its Emergency Measures Agreements ("EMAs") to 31 March 2021 from the initial expiry of 10 January 2021.

On 8 February 2021 Transport for Wales' OLR took over operation of the Wales and Borders rail services, renationalising the railway in Wales. The existing lease for Mark IV passenger coaches and Driving Van Trailers ("DVTs") has been novated to the OLR.

The ERMAs are expected to transition the UK towards a new concession-based system, ending the system of franchises. In 2018, the UK Government established a Rail Review to recommend the most appropriate organisational and commercial frameworks to deliver its vision to have a world-class railway, working as part of the wider transport network. Responses to the findings of the review will be incorporated in a White Paper, which is due to be published when the course of the COVID-19 pandemic becomes clearer. We will continue to engage with industry regulators and stakeholders to monitor the proposals so that we can understand the impact for the Group, anticipate and respond to changes in the most appropriate way.

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

The new UK-EU Trade and Co-operation Agreement signed in December 2020 has ensured the continued tariff-free and quota-free movement of physical goods between the UK and the EU. Notwithstanding the requirement for increased customs checks, the risk to the Group of disruption or increased cost to the supply chain as a result of new arrangements is not considered material.

3.3 Climate change and the environment

The rail industry has a key role to play in the UK's actions to mitigate climate change. 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, Scottish Ministers have set an earlier deadline of 2035. Air quality in stations and cities is a major concern, which might pressure the regulator to impose further restrictions on the transportation sector. In June 2019, legislation was established requiring the UK to achieve net zero carbon emissions by 2050.

The Group is an active member of the industry's forums for discussions and response to how these targets can be met safely and effectively. It has been recognised that rail 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. Network Rail's Traction Decarbonisation Network Strategy (TDNS) supports the development of a programme for change. The scale of the challenge faced by the rail industry is significant and inevitably, change will not be immediate. Progress will need to be managed to ensure an efficient, co-ordinated transition in as safe and effective way as possible.

3. Business environment (continued)

3.3 Climate change and the environment (continued)

Environmental considerations are an integral factor in our key business decisions and through regular engagement with industry stakeholders, we look for ways to support their climate change objectives. We use climate-related scenario analysis to inform our business strategy in relation to procuring our rolling stock, based on anticipated TDNS implementation pathways. In particular, traction decarbonisation and energy efficiency impacts are considered in our regular evaluations of the risks and opportunities for each fleet - this informs the preparation of fleet strategy and financial plans and budgets.

We are investigating three retrofittable technologies: hydrogen fuel cells, batteries, and diesel-battery hybrid power packs, to provide low or zero-emissions mainline operation with carbon-free emissions at stations and in built-up areas. Further detail of these projects can be found in section 4.2 of this report. We are also analysing options to convert passenger trains to carry parcels to encourage modal shift from HGV to rail to reduce carbon emissions.

The TDNS Programme Business Case includes reference to two of our current projects, Breeze Hydrogen Multiple Units (HMU) and Revolution Very Light Rail (VLR). The business case recommends early deployment of battery and hydrogen propulsion technologies to gain whole-system experience that will inform later phases of the 30-year implementation programme.

Our responsibility for reducing our impact on the environment influences the way we work. All of the electricity supplied in our offices is fully renewable, we have removed all single use plastic cups within our premises and actively seek to recycle office waste where practical. In 2020, we also launched a Cycle to Work scheme to encourage our workforce to adopt greener modes of transport.

The Group does not disclose emissions from its rolling stock assets as it does not have operational control over them. We do monitor the performance of our rolling stock continuously, this includes reviewing feedback from TOCs and FOCs and emission data. However, the Group does disclose its emissions from usage of purchased electricity as part of Streamlined Energy and Carbon Reporting (SECR) reporting. For further details, please refer to the SECR disclosures in the Directors' report.

	2020	**2019**
Expenditure invested in alternative propulsion technology	**£985,000**	£0
Total gross operational greenhouse gas emissions	**41.4tCO2e**	n/a*

* Measurement commenced in 2020

3.4 Customers and suppliers

The Group's drive for developing and maintaining strong relationships has never been as important as it has during the COVID-19 pandemic. The frequency of operational reviews for both customers and suppliers was increased to help understand and support key customers and the supply chain. Furthermore, we have been working with our customers and suppliers to identify product improvements to our fleets that could potentially reduce the risk of transmission of the virus.

Customers have an opportunity to provide feedback at regular contract reviews. Additionally, the state of the relationship between the two parties is discussed at quarterly meetings attended by more senior representatives from each company. In terms of complaints, the Group has a complaint policy which covers both general and Code of Practice complaints. In 2020, the Group received no new complaints from customers.

Strategic report (continued)

for the year ended 31 December 2020

4. Development and performance of the business

4.1 Maintain Value

Leasing developments

The UK Government's Operator of Last Resort took over running services on the Northern franchise on 1 March 2020 through a subsidiary (Northern Trains Limited). The new operator will work with local leaders, industry and passenger representatives to deliver a plan for improvements. All of the Group's contracts with Arriva Rail North Limited (the previous operator of the Northern franchise) have been transferred to Northern Trains Limited, with our commercial position protected.

On 23 March 2020, EMAs were put in place for a period of six months to support TOCs following falls in passenger numbers caused by the COVID-19 pandemic. On 21 September, the UK Government extended its support to TOCs through ERMAs for a period of up to 18 months.

On 30 March 2020, the DfT signed new contracts with London & South Eastern Railway and First GWR to ensure continuity of vital train services in Kent, the South West of England and South Wales during the COVID-19 outbreak. Long-term capacity improvements have also been agreed as part of the contracts. New leases were signed with South Eastern for 245 units across fleets Class 375, Class 376 and Class 465 to October 2021 and with Great Western for 35 Class 802 bi-mode units to March 2023.

Other re-leasing activity included:

- Seven rakes of IC225 plus additional Class 91 locomotives with LNER to May 2023;
- 15 Class185 units with TransPennine Express from June 2020 to mid-December 2021;
- Extensions for Class 321 Classic and Renatus fleets with Abellio East Anglia to between January 2021 and September 2021; and
- Several other short-term leases to meet operator requirements.

On 9 October 2020, the Group received communication from Grand Central operator Arriva of their intention to terminate the lease of 24 Mark IV vehicles following their decision to cancel their proposed Blackpool-London route.

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 support alternative franchises. Demand for mid-life fleets continues, especially as there continues to be significant delays to the planned introduction of new rolling stock across the sector.

End of life assets

The Group has established policy and procedures and has engaged with third parties to reprocess end of life vehicles in a safe and environmentally sustainable way. During the year, part of the Group's Class 315 fleet ceased operational service and was decommissioned. These vehicles, which had achieved around 40 years of service, had reached the end of their useful lives. The disposal of these vehicles generated proceeds of £488,000 and resulted in a profit on disposal of £488,000. The timing of the replacement of the remainder of the Class 315 fleet is dependent on the introduction of new rolling stock by one of our competitors. We will continue to work flexibly with customers to ensure that their services are maintained in light of changes to new vehicle delivery programmes.

Heavy maintenance

The Group provides services in relation to the procurement and management of heavy maintenance of rolling stock on behalf of its customers in relation to certain fleets.

In 2020 the Group delivered heavy maintenance projects on eight of its fleets, including mileage based overhauls on six fleets Class 315, Class 318, Class 321 Classic, Class 321 Renatus, Class 465 and Class 320/4s. We have also undertaken two time-based overhaul projects on Class 320 and Class 465. Arrangements are in place for the forthcoming Class 334 mileage based overhaul and we are in the process of procuring Class 334 and Class 318 time-based overhauls. Having secured new leases for some of our Class 91 and Mark IV fleet, we have placed contracts for their ongoing heavy maintenance. The Group spent £38,060,000 during 2020 on maintenance related activity (2019: £46,968,000).

Strategic report (continued)
for the year ended 31 December 2020

4. Development and performance of the business (continued)

4.1 Maintain Value (continued)

Asset management services

The Group continues to support Cross London Trains Limited (XLT) with asset management services on the Class 700 fleet. The fleet is leased to Govia Thameslink Railway and maintained by Siemens.

	2020	2019
Number of vehicles owned by the Group	**3,498**	3,560
Group rolling stock utilisation (percentage of vehicles available for lease which were let)	**97.6%**	99.1%

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 progressed during the last half of 2020 including Class 380 and Class 334 franchise modifications and Class 158 Wi-Fi modifications. We have mobilised projects on Class 375 and Class 395 in line with the agreed lease terms. Expenditure on modification and refurbishment projects totalled £7,500,000 in 2020 (2019: £16,900,000).

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 2020, workstreams to focus on medium and longer-distance fleets, including the Class 222 diesel-electric multiple units, were launched to determine the most appropriate approach to modifying their propulsion systems.

The Group is a member of the Revolution Very Light Rail consortium, dedicated to the development of the next generation very light rail technology, in response to the need for lightweight energy-efficient system solutions. By combining advanced manufacturing processes and low-cost technologies from other industries, we expect VLR will demonstrate it is feasible to create a bespoke light rail vehicle for new purposes, for example reducing the cost of rail operation to support increasing train frequency on little used lines or the reopening of railways previously deemed uneconomic. The programme is progressing well. A demonstrator vehicle is now being assembled and will commence performance validation tests in 2021. 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.

In September 2020, the Group commenced a design and functionality trial concept with Hitachi for the conversion of a single Class 802 Bi-mode unit into a hybrid. We anticipate that this will lead to a fleet-wide modification to remove diesel engines and align the C802 units with the ongoing railway decarbonisation initiative.

The key difference between the bi-mode and a hybrid is that the bi-mode uses either diesel or AC electric traction, whereas the hybrid will blend battery and AC electric traction continuously to allow trains to run emission free where there is no overhead line equipment. The trial is to initially replace one of the three engines currently fitted on a 5-car unit with a view to replacing all engines in the future.

During the year, the Group also continued their plan to fast-track the hydrogen train industry in the UK with a further investment of almost one million pounds, creating an entirely new class of train, the first-ever 600 series known as ‘Breeze’. It will bring hydrogen train technology, proven in passenger service on Alstom’s Coradia iLint trains in Germany, to the UK. The 600 series will be developed using the Group’s Class 321 electric trains, reengineering some of the UK’s most reliable rolling stock, to create a clean train for the modern age.

4. Development and performance of the business (continued)

4.2 Enhance Value (continued)

Two C321 units have been provided to Alstom for further design development, manufacturing production and operator engagement. The first unit is expected to be ready for passenger service by 2023 and a first full fleet by 2024, emitting only water and no harmful emissions at all.

4.3 Add Value

During 2020 the Group accepted 65 new vehicles in its portfolio of new build rolling stock. This brings to substantial completion the programme, which represents an aggregate investment of £1.1bn over recent years. The new build programme comprised:

- 36 Class 802 units (comprising 236 vehicles) high speed bi-mode inter-city trains operated by GWR.
- 58 Class 195 units (comprising 149 vehicles) regional fuel-efficient diesel trains operated by Northern.
- 43 Class 331 units (comprising 141 vehicles). Class 331 is a regional electric train operated by Northern.
- 12 Class 397 units (comprising 60 vehicles). Class 397 is a high speed electric train operated by TransPennine Express.

All of the above units are in, or available for, passenger service with the exception of the final Class 195 unit which is being repaired following a low speed derailment within a depot and is due to be accepted in April 2021.

	2020	**2019**
Expenditure on new build rolling stock	**£72,800,000**	£392,700,000

4.4 Great Trains

The Group's rail asset portfolio is managed by dedicated fleet managers with the support of project and account managers. The team comprises experienced railway professionals with an in-depth knowledge of whole life rolling stock management and our fleets, which provides us with an important insight into asset protection, reliability and fleet life extension. Their focus is safety, train performance and the development and positioning of fleets to maximise their financial return.

Recent evidence of our fleet performance was highlighted at the 2020 Golden Spanners industry awards, where we won a total of one bronze, one silver and five gold awards, across the full age range fleets, including former British Rail electric multiple units, first generation intercity and second generation new diesel multiple units.

The Group is directly involved in defining industry best practice, technologies and policies, understanding and influencing the changing landscape of the rail industry, and is well positioned to enhance and add to the existing portfolio to meet future requirements.

Strategic report (continued)
for the year ended 31 December 2020

4. Development and performance of the business (continued)

4.5 Great People

The Group employs 107 (2019: 108) professional, technical and support staff, and is committed to their continued professional development and well-being. Details of our approach to equality, diversity, and inclusion together with our methods of engagement with employees can be found in the Corporate responsibility section of this Strategic report and the Corporate Governance statement within the Annual report and financial statements of Eversholt UK Rails Limited.

We strive to offer employees a good place to work. We conduct employee engagement surveys, to monitor the current satisfaction of the workforce. We also carry out detailed exit interviews with leavers to gain their valuable feedback and operate a virtual employee comments/suggestion box. The feedback from these processes informs the design and delivery of our people agenda to ensure that appropriate measures are implemented to address potential shortcomings. As a result of such feedback, in 2020 we introduced more flexible working hours to better accommodate the needs of some employees.

Throughout the year we have provided a range of professional training courses, including team performance management and impactful communication. In response to employees working remotely due to COVID-19 we have moved to deliver training remotely, including sessions on managing teams remotely and resilience coaching. Each employee received an average of 6.3 hours of training in 2020, equivalent to a spend of approximately £600. The move to on-line learning and disruption to classroom based courses led to a reduction in training hours and spend per employee. We support continuous improvement of the workforce to deliver long-term value creation. Whilst the total number of positions filled by internal candidates in 2020 was only 8%, this was due to a need for specific skills that did not exist in the business, such as legal and commercial finance.

Alongside professional training, we also offer training and measures to foster employees' health and well-being and provide support during challenging times. A structured wellness strategy was implemented for 2020: we introduced a Cycle to Work scheme; invited experts to host financial health and mental health seminars; and provided regular virtual yoga, pilates and HITT sessions.

The Group ensures effective management of health and safety risks through annual workplace assessments. In 2020, with employees working remotely, the assessment was carried out online. Any office equipment found to be required to ensure that employees can work safely remotely has been delivered to them. Additionally, we conducted mandatory reorientation training for all employees in relation to COVID-19 safe working practices in the office.

The Group monitors staff turnover rates which have recovered back to their historical levels after a rise in 2019. Turnover rate is calculated as the percentage of employees who left the organisation by resignation or retirement during the year.

	2020	**2019**
Training hours per employee	**6.3**	16.0
Training spend per employee	**£600**	£2,000
Employee turnover rates	**4.7%**	9.8%

4.6 Great Future

The Group has a disciplined approach to investment which it will maintain as we continue to assess growth opportunities in rail and other transport related assets with the support of our shareholders.

5. Risk management

The Group has established 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 Audit and Risk Committee and Board of Directors of Eversholt UK Rails Limited 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 reported in the Group's risk register are as follows:

COVID-19

The Group is principally exposed to the impacts of COVID-19 through the ongoing viability of its customers (TOCs and FOCs) and the impact of passenger volume decline. Both exposures are largely mitigated in the short term by the UK Government's ERMAs and the role of the OLR in maintaining passenger operations in the event of a TOC failure. The risks to the business from COVID-19 are further described in the Directors' report.

Economic conditions

A less favourable economic outlook 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 and customers. The Group regularly reviews long term economic and rolling stock demand forecasts.

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 to understand and inform appropriate responses to developments.

Rail franchising and successor arrangements

A new concession-based system (National Rail Concessions Contracts ("NRCCs") is expected to replace the rail franchising system. The impacts of this change on our business are not yet clear but it could lead to an increase in re-leasing events in the shorter term, a trend that has been evidenced in recent years via the increasing use of short term Direct Awards. Irrespective of industry arrangements, the Group expects that it will continue to offer to lease its rolling stock on a commercial basis.

Competition

The Group competes with other rolling stock owners to secure leases for its rolling stock. The Group has a disciplined approach to the rental offers of its rolling stock to operators, reflective of the re-letting risk at the end of the lease. 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 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.

The Group monitors and mitigates the threat of a cyber security breach on our trains as well as participating in the cross-industry Rail Cyber Security Committee (RCSC). Eversholt Rail has a responsibility to understand risks and vulnerabilities and communicate them to train operators.

5. Risk management (continued)

5.1 Principal risks and uncertainties (continued)

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. We have 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, counterparty, market and credit risk. These risks, together with an analysis of the exposure to such risks, are set out in note 32 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, and its shareholders, remain committed to an investment grade rating.

The above risks 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 fleets, 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 maintains an excellent knowledge of the current condition of its fleets.

Fleet performance is monitored for emerging trends that might indicate that a particular fleet has developed a problem. In addition, we work proactively with train operators to identify opportunities to improve the performance of our fleets. We maintain regular 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 evaluated by an in-house team of asset managers and significant investment has been made in the production of mock-ups and vehicle demonstrators in order to advertise the available options. 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 operating lease rentals of £390,196,000 (2019: £369,652,000) and a profit after tax of £9,601,000 (2019: £22,385,000). The increase in operating lease rentals is primarily due to further acceptance of new trains supplementing existing stock. The reduction in profit after tax in 2020 reflects reduced maintenance related profits, a write-down of rolling stock, unrealised losses on derivative financial instruments and an increase in finance costs due to higher borrowings funding our acquisition of new rolling stock. As at 31 December 2020 the Group had net liabilities of £450,093,000 (2019: £381,560,000). The increase in net liabilities at 31 December 2020 reflects changes in fair value of cash flow hedges recognised in other comprehensive income. The average number of persons employed by the Group during the year was 107 (2019: 108).

The Group's results for the year are detailed in the Income statement on page 23.

The Group is financed by a mix of equity and senior debt. The terms of the senior debt contain certain covenants and the business is managed to ensure compliance with these covenants and to protect its investment grade rating.

In June 2020, the Group issued a £500,000,000 20-year amortising bond at competitive rates, despite the market effects of the COVID-19 virus, demonstrating not only our ability to access capital markets at relatively short notice, but that investor appetite for transport infrastructure finance remains firm, reinforcing the Group's liquidity position.

The proceeds from this transaction have been used to fully repay a £300,000,000 bond due maturing in December 2020 and partially repay our next maturing bond in 2025, resulting in the elimination of near-term refinancing risks should credit markets deteriorate.

The Group maintains investment grade credit ratings with Moody's Investors Service ("Moody's) and Fitch Ratings ("Fitch"). As at 31 December 2020, Moody's rating for the Group and its debt issued under the Group's MTN programme is Baa2 (31 December 2019: Baa2). The Fitch rating for the Group is BBB (31 December 2019: BBB) and the bonds issued under its MTN programme are rated BBB+ (31 December 2019: BBB+).

Monthly management reporting and analysis to support business decisions includes consideration of the current and forecast measurements of:

- leverage (net debt as a percentage of EBITDA (earnings before interest, tax, depreciation and amortisation));
- interest cover (EBITDA divided by net interest payable);
- the extent to which net debt is covered by the net present value of anticipated capital rentals;
- liquidity;
- net exposure to interest rates and foreign exchange; and
- 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 has sufficient resources to continue in business for the foreseeable future.

	2020	**2019**
Operating lease rentals	**£390,196,000**	**£369,652,000**

7. Corporate responsibility

As a leading UK owner and lessor of rolling stock and other rail assets, the Group recognises it must adhere to the highest standards in all of its areas of its business.

Rail is currently viewed as a relatively low-carbon form of transport and is one of the most efficient ways of moving high volumes of people and freight over long distances. In 2018, GHG emissions from rail (passenger and freight) made up just 1.4% of the UK's domestic transport emissions[1]. The railway industry is becoming less carbon intensive as older trains reach the end of their lives and are replaced by new trains that use greener forms of electricity.

The Group has already engaged in a number of innovative projects such as the Breeze hydrogen fuel cell train as described under section 4.2. For further details on the latest Group' developments, please refer to our website[2].

Additionally, the Group recognises it must act responsibly in its own operations towards the environment, its employees and its communities at all times to create long-term, sustainable value.

Communities

The group recognises its responsibility towards communities and since 2013 has contributed over £180,000 through fundraising and donations to charities.

Our current charity partner is Back Up, an organisation that helps people who have been paralysed through accident or illness and works with them to adjust positively to spinal cord injury. We aim to raise awareness of the charity, raise funds, provide volunteering opportunities for our staff as well as administration assistance and office space for meetings and training for the charity. Our charity partner is selected by our staff. Our previous partners have been Jubilee Sailing Trust and Noah's Ark.

We also provide support to several industry organisations including National Rail Museum, Campaign for Better Transport and Community Rail Network.

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. Accordingly, consideration of long-term consequences are an inherent part of the Company's decision making processes. As a privately-owned company ultimately owned 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.

[1] BEIS (2020) 2018 UK greenhouse gas emissions: final figures – statistical release (online). Available at: https://www.gov.uk/government/statistics/final-uk-greenhouse-gas-emissions-national-statistics-1990-2018

[2] https://eversholtrail.co.uk/news/

Strategic report (continued)

for the year ended 31 December 2020

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 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:

- TOCs and FOCs – the Group's customers
- industry regulators and franchise authorities (principally the Office of Rail and Road ("ORR"), the DfT, 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 Group's suppliers – train manufacturing companies and other suppliers who supply and maintain rolling stock
- the Group's external lenders
- the Group's employees
- the Group's owners.

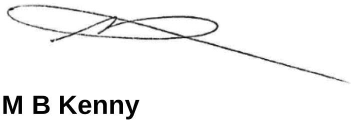
During the COVID-19 pandemic, the Group continued to actively manage its employees' health and wellbeing. Employee feedback on working remotely was gathered and as a result, various initiatives were rolled out such as online weekly fitness sessions and externally facilitated learning in areas such as resilience as described in section 4.5. The Group continued to hold its company briefs remotely, which ensured that all staff were kept updated on the business and provided an opportunity for employees to ask any questions of the leadership team. A staff survey was conducted in December 2020, the results of which will be gathered and reviewed by the Leadership team and action plans agreed by the end of the first quarter in 2021.

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 financial statements of Eversholt UK Rails Limited (the parent company of the Eversholt UK Rails Group) for the year ended 31 December 2020.

Approved by the Board and signed on its behalf by:



M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom
1 March 2021

Directors' report

for the year ended 31 December 2020

The Directors present their Annual report together with the audited financial statements for the year ended 31 December 2020.

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 Wesson
LDC Securitisation Director No 3. Limited
D Spence (appointed on 16 April 2020)
L R Warsop (appointed on 16 April 2020)

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.

Streamlined energy and carbon reporting

In preparing the Directors' report, the Group has implemented the 'Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018' (the "Regulations"), effective from 1 January 2020. In this respect the Group provides the following information for the year ended 31 December 2020:

Meeting energy requirements of the Group's rolling stock/depot assets is the primary responsibility of the Group's customers, being the train and freight operating companies. The Group does not therefore consume any fuel/electricity/gas in relation to these assets.

Greenhouse Gas Emissions & Energy Use Data for the year ended 31 December 2020:

Gas combustion (kWh)	-
Fuel consumption for transport purposes (kWh)	**8,778**
Electricity usage (kWh)	**168,069**
Emissions from combustion of gas, tCO2e (Scope 1)	-
Emissions from combustion of fuel for transport purposes, tCO2e (Scope 1)	-
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel, tCO2e(Scope 3)	**2.18**
Emissions from purchased electricity, tCO2e (Scope 2, location-based)	**39.18**
Total gross CO2e based on above, tCO2e	**41.36**
Intensity ratio:	**0.38**
Methodology	**All tCO2e emissions have been calculated using 2020 UK Government GHG conversion factors for Company Reporting**

Streamlined energy and carbon reporting (continued)

(a) Energy efficiency action taken:

In the period covered by the report, energy efficiency actions have been taken. The Cycle to Work scheme was introduced to encourage our workforce to adopt greener modes of transport. Staff are using Microsoft Teams to facilitate video conferencing to reduce the need to travel.

(b) Reporting methodology:

All tCO_2e emissions have been calculated using 2020 UK Government GHG conversion factors for Company Reporting.

Electricity consumption has been calculated from landlord invoicing which provide kWh totals. Amounts for October to December 2020 have been determined by reference to consumption for the comparative period.

Transport fuel consumption has been calculated by applying vehicle fuel efficiency figures (listed in 2020 UK Government GHG conversion factors for Company Reporting) to annual vehicle mileage, annual kWh totals have then been calculated.

COVID-19

The Directors have considered the potential impacts of COVID-19 upon the viability of the Group's rolling stock leasing business and its ability to meet commitments for a period of at least 12 months from the date when the financial statements are authorised for issue. One area of potential impact upon the Group's business is a threat to the viability of train operators due to passenger volume decline. This is largely mitigated in the short term by the UK Government's EMAs and subsequent ERMAs and the role of the OLR in maintaining passenger operations in the event of a TOC failure. The Group's current rolling stock maintenance and enhancement plans may be subject to delays caused by COVID-19, however this is currently not considered a material risk.

In common with UK businesses generally, the Group is also exposed to other risks including access to capital markets, impacts on supply chains, employee health and access to the workplace. The Group has introduced governance processes to closely monitor the impacts and where possible, mitigation has been put in place to limit the impact. The Group maintains a prudent level of liquidity to cater for adverse business conditions in the event of a prolonged severe period of disruption.

At this stage, the Directors do not believe that COVID-19 presents any material risks to the Group, nor changes to risk management as described in note 32. The Directors consider the key critical judgement in reaching this conclusion to be the UK Government's continued support to the rail industry. Nevertheless, the Directors continue to keep the position under review, monitoring events and a range of possible outcomes, as the full impact of COVID-19 emerges.

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.

Future developments

It is widely anticipated that the recommendations of the 2018 Rail Review will be published in a White Paper during 2021. It is expected that one of the effects will be a transition to a concession-based system, as described in section 3.1.

Directors' report (continued)
for the year ended 31 December 2020

Future developments (continued)

During the year and having regard to its "Environmental, Social and Governance" ("ESG") responsibilities, the Group commenced a review of its profile and performance from an ESG perspective. This work will support future initiatives to ensure that our governance processes are appropriately focussed and communicated.

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 (2019: £nil).

Dividends

Dividends of £46,500,000 were paid in the year (2019: £41,550,000).

Going concern basis

The Group's forecasts and projections taking account of reasonably possible changes in trading performance, including the potential impact of COVID-19, show that the Group has adequate resources to continue in operational existence for the period of at least 12 months from the date when the financial statements are authorised for issue. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

In reaching this conclusion, the Directors have also considered: the current financial position of the Group, which has cash of £81,500,000 and undrawn committed borrowing facilities of £600,000,000 as at 31 December 2020; projected performance against financial covenants; the high level of forecast revenue underpinned by existing lease agreements; the legal arrangements in place in the event of an operator default and the extent to which the UK Government is the "operator of last resort" in such circumstances; and potential mitigating actions. Multiple scenarios were run against the most recent forecasts as well as assessing the level of forecast revenue that would need to be lost before the Group breached any of its borrowing covenants. The Directors are satisfied that under all reasonable sensitivities to the Group's forecasts and projections that the Group has adequate resources to continue in existence for the period of at least 12 months from the date when the financial statements are authorised for issue.

The potential impact of COVID-19 upon the business is described above under the heading COVID-19.

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 2020

Risk management and Corporate governance

Details of the Group's risk management and Corporate governance arrangements are set out in the Corporate Governance statement within the Annual report and financial statements of Eversholt UK Rails Limited.

Approved by the Board and signed on its behalf by:

M B Kenny
Director
Registered Office:
210 Pentonville Road
London, N1 9JY
United Kingdom
1 March 2021

Statement of Directors' responsibilities
for the year ended 31 December 2020

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 2020.

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 1 March 2021 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 2020

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 2020 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 36.

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)), including ISA (UK) 800. 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 2020

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.

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited (Security group) (continued)
for the year ended 31 December 2020

Use of our report

This report is made solely to the company's directors, as a body, in accordance with our engagement letter dated 7 January 2021 and solely for the purpose of assisting the directors to fulfil their obligations to provide audited non-statutory financial statements under the terms of the financing agreement. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our audit work, for this report, or for the opinions we have formed.

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

Deloitte LLP

Deloitte LLP
Reading
United Kingdom

1 March 2021

Consolidated income statement
for the year ended 31 December 2020

	Note	Group Year ended 31 December 2020 £'000	Group Year ended 31 December 2019 £'000
Revenue			
Finance lease income	*4.1*	**528**	586
Operating lease income	*4.1*	**390,196**	369,652
Maintenance income	*4.1*	**42,877**	65,561
Other income	*4.1*	**5,087**	6,765
Total revenue	*4.1*	**438,688**	442,564
Cost of sales	*5*	**(228,751)**	(223,247)
Gross profit		**209,937**	219,317
Finance income	*6*	**624**	340
Finance expense	*7*	**(173,821)**	(167,750)
Net fair value (loss)/gain on derivative financial instruments	*17*	**(5,905)**	5,595
Pension finance expense	*31.6*	**(124)**	(96)
Administrative expense	*8*	**(23,904)**	(23,835)
Gain/(loss) on disposal of property, plant and equipment		**488**	(1,845)
Other gains	*23*	**11,354**	-
Profit before tax		**18,649**	31,726
Income tax charge	*11*	**(9,048)**	(9,341)
Profit for the year		**9,601**	22,385

There were no discontinued or discontinuing operations during the year.

The notes on pages 28 to 71 form an integral part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2020

	Note	Group Year ended 31 December 2020 £'000	Group Year ended 31 December 2019 £'000
Profit for the year		**9,601**	22,385
Other comprehensive (expense)/income			
Actuarial loss on defined benefit scheme	*31.7*	**(2,057)**	(2,579)
Tax credit in respect of actuarial loss on defined benefit scheme	*18*	**522**	438
Realised gain on cash flow hedges to Income statement	*17*	**1,153**	-
Effective portion of changes in fair value of cash flow hedges	*17*	**(52,003)**	(52,773)
Realised loss/(gain) on cash flow hedges to property, plant and equipment	*17*	**11,447**	(10,816)
Realised loss on cash flow hedges to Income statement	*17*	**353**	710
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	*18*	**8,661**	10,689
		(31,924)	(54,331)
Total comprehensive expense for the year		**(22,323)**	(31,946)

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 2020

		Group	
		As at 31 December 2020	As at 31 December 2019
Assets	***Note***	**£'000**	**£'000**
Non-current assets			
Property, plant and equipment	***12***	**2,234,096**	2,343,688
Right-of-use assets	***13***	**3,620**	4,304
Finance lease receivables	***14***	**3,335**	4,419
Derivative financial instruments	***17***	**48,325**	21,821
		2,289,376	2,374,232
Current assets			
Inventory	***20***	**302**	511
Finance lease receivables	***14***	**1,083**	997
Contract assets	***4.2***	**2,037**	4,568
Trade and other receivables	***15***	**16,019**	10,710
Current tax		**4,222**	-
Cash and cash equivalents	***21***	**81,534**	71,963
Amount owed by Eversholt UK Rails Limited	***34.2***	**8**	-
		105,205	88,749
Total assets		**2,394,581**	2,462,981
Liabilities and equity			
Current liabilities			
Trade and other payables	***22***	**66,742**	55,633
Lease liabilities	***16***	**970**	820
Current tax		**-**	16,014
Borrowings	***23***	**63,820**	407,661
Derivative financial instruments	***17***	**-**	744
Other liabilities	***25***	**18,206**	5,624
Provisions	***26***	**-**	40
		149,738	486,536
Non-current liabilities			
Retirement benefit obligation	***31.5***	**8,915**	6,517
Borrowings	***23***	**2,267,504**	1,984,671
Deferred tax	***18***	**39,265**	41,542
Contract liabilities	***4.2***	**53,364**	23,996
Other liabilities	***25***	**117,357**	124,740
Derivative financial instruments	***17***	**204,561**	171,213
Lease liabilities	***16***	**4,095**	5,165
Provisions	***26***	**165**	161
		2,695,226	2,358,005
Total liabilities		**2,844,964**	2,844,541
Equity			
Share capital	***27***	**-**	-
Other reserve		**13,672**	13,672
Accumulated deficit		**(382,174)**	(343,740)
Hedging reserve		**(81,881)**	(51,492)
Total equity		**(450,383)**	(381,560)
Total equity and liabilities		**2,394,581**	2,462,981

Consolidated statement of financial position (continued)
as at 31 December 2020

The notes on pages 28 to 71 form an integral part of these financial statements. The financial statements were approved by the Board of Directors and authorised for issue on 1 March 2021. 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 2020

		Group	
	Note	**Year ended 31 December 2020 £'000**	**Year ended 31 December 2019 £'000**
Cash flow from operating activities			
Profit before tax		**18,649**	31,726
Adjustments for:			
- Depreciation	*12*	**178,083**	176,140
- Write-down of rolling stock	*12*	**12,450**	-
- Depreciation of right-of-use assets	*13*	**684**	689
- Write-down of inventory	*5*	**209**	225
- Gain on refinancing	*23*	**(11,354)**	-
- Fair value adjustment on derivative financial instrument	*17*	**5,905**	(5,595)
- (Gain)/loss on disposal of property, plant and equipment		**(488)**	1,845
- Unwinding of capitalised borrowing costs	*7*	**2,406**	2,331
- Interest expense	*7*	**171,415**	165,419
- Interest income	*6*	**(624)**	(340)
- Adjustment for non-cash element of pension charge		**341**	247
Operating cash flow before changes in working capital		**377,676**	372,687
Decrease in finance lease receivables		**998**	917
(Increase)/decrease in trade and other receivables and contract assets		**(2,778)**	5,933
Increase in other and contract liabilities		**33,589**	6,590
(Decrease)/increase in provisions		**(36)**	166
Increase/(decrease) in trade and other payables		**9,224**	(9,486)
Cash flow generated by operating activities		**418,673**	376,807
Taxation (paid)/received		**(22,378)**	2,660
Interest received	*6*	**624**	340
Net cash generated by operating activities		**396,919**	379,807
Cash flow from investing activities			
Acquisition of property, plant and equipment	*12*	**(69,341)**	(409,640)
Proceeds from disposal of property, plant and equipment		**488**	307
Movement in amounts owed by group undertakings	*34.2*	**(8)**	-
Investment in short-term bank deposits	*21*	**-**	30,000
Net cash utilised in investing activities		**(68,861)**	(379,333)
Cash flow from financing activities			
Settlement of derivatives	*17*	**(52,966)**	-
External borrowings raised	*23*	**340,347**	-
External borrowings paid	*23*	**(300,000)**	-
Bank loans (paid)/raised		**(85,000)**	85,000
Repayment of lease liability	*16*	**(1,034)**	(982)
Interest paid on bonds	*24*	**(101,717)**	(98,678)
Interest paid on loan from Eversholt UK Rails Limited	*24*	**(48,023)**	(47,891)
Profit Participating Shares dividend paid	*24*	**(254)**	(293)
Interest paid on swaps	*24*	**(17,625)**	(14,772)
Interest paid on bank loans	*24*	**(220)**	(398)
Capitalised transaction fees	*24*	**(2,481)**	-
Other financing fees		**(1,727)**	(1,684)
Dividends paid	*29*	**(46,500)**	(41,550)
Net cash utilised in financing activities		**(317,200)**	(121,248)
Net movement in cash and cash equivalents		**10,858**	(120,774)
Net foreign exchange differences	*17*	**(1,287)**	(1,979)
Cash and cash equivalents at the beginning of the year		**71,963**	194,716
Cash and cash equivalents at the end of the year	*21*	**81,534**	71,963

Consolidated statement of changes in equity

for the year at 31 December 2020

	Note	Share capital £'000	Other reserve £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2019 as previously reported		-	13,672	698	(320,904)	(306,534)
Adjustment in respect of impact of adoption of IFRS 16 Leases		-	-	-	(1,843)	(1,843)
Income tax on adjustment in respect of impact of adoption of IFRS 16 Leases		-	-	-	313	313
Restated balance 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	*17*	-	-	(52,773)	-	(52,773)
Realised loss on cash flow hedges transferred to Income statement	*17*			710	-	710
Realised gain on cash flow hedges to Property, plant and equipment	*17*	-	-	(10,816)	-	(10,816)
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	*17*	-	-	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	*29*	-	-	-	(41,550)	(41,550)
Balance at 31 December 2019		**-**	**13,672**	**(51,492)**	**(343,740)**	**(381,560)**
Profit for the year		**-**	**-**	**-**	**9,601**	**9,601**
Realised gain on cash flow hedges to the Income Statement	***17***	**-**	**-**	**1,153**	**-**	**1,153**
Effective portion of changes in fair value of cash flow hedges	***17***	**-**	**-**	**(52,003)**	**-**	**(52,003)**
Realised loss on cash flow hedges transferred to Income statement	***17***	**-**	**-**	**353**	**-**	**353**
Realised loss on cash flow hedges to Property, plant and equipment	***17***	**-**	**-**	**11,447**	**-**	**11,447**
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	***17***	**-**	**-**	**8,661**	**-**	**8,661**
Actuarial loss on defined benefit scheme after tax		**-**	**-**	**-**	**(1,535)**	**(1,535)**
Total comprehensive (expense)/ income		**-**	**-**	**(30,389)**	**8,066**	**(22,323)**
Dividend paid	***29***	**-**	**-**	**-**	**(46,500)**	**(46,500)**
Balance at 31 December 2020		**-**	**13,672**	**(81,881)**	**(382,174)**	**(450,383)**

Dividends of £455,882 per share were paid during the year (2019: £407,353 per share).

Notes to the annual financial statements
for the year ended 31 December 2020

1 General Information

Eversholt UK Rails (Holding) Limited is a private company incorporated in England and Wales and is limited by shares (see note 27). 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 current 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 19 - 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 2020, there were no unendorsed standards effective for the year ended 31 December 2020 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 2020 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 the following interpretations and amendments to standards which were EU endorsed during 2019 and 2020 and were effective for accounting periods beginning on or after 1 January 2020, unless otherwise indicated. They have no material effect 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; and
- Amendment to IFRS 16 Leases COVID 19-Related Rent Concessions – effective from 1 June 2020.

At 31 December 2020, 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 2020. Subject to EU endorsement (unless otherwise stated), they are applicable for periods for the following accounting periods and are not anticipated to have a material impact on the financial statements:

Effective for accounting periods beginning on or after 1 January 2021:

- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (endorsed December 2020); and
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.

Effective for accounting periods beginning on or after 1 January 2022:

Amendments to:

- IFRS 3 Business Combinations;
- IAS 16 Property, Plant and Equipment;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- Annual Improvements 2018-2020.

Effective for accounting periods beginning on or after 1 January 2023:

- IFRS 17 Insurance Contracts; including Amendments to IFRS 17; and
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date.

2 Basis of Preparation (continued)

2.4 Going concern

The Group's forecasts and projections taking account of reasonably possible changes in trading performance, including the potential impact of COVID-19, show that the Group has adequate resources to continue in operational existence for the period of at least 12 months from the date when the financial statements are authorised for issue. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

In reaching this conclusion, the Directors have also considered: the current financial position of the Group, which has cash of £81,500,000 and undrawn committed borrowing facilities of £600,000,000 as at 31 December 2020; projected performance against financial covenants; the high level of forecast revenue underpinned by existing lease agreements; the legal arrangements in place in the event of an operator default and the extent to which the UK Government is the "operator of last resort" in such circumstances; and potential mitigating actions. Multiple scenarios were run against the most recent forecasts as well as assessing the level of forecast revenue that would need to be lost before the Group breached any of its borrowing covenants. The Directors are satisfied that under all reasonable sensitivities to the Group's forecasts and projections that the Group has adequate resources to continue in existence for the period of at least 12 months from the date when the financial statements are authorised for issue.

The Directors have considered the potential impacts of COVID-19 upon the viability of the Group's rolling stock leasing business and its ability to meet commitments for a period of at least 12 months from the date when the financial statements are authorised for issue. One area of potential impact upon the Group's business is a threat to the viability of train operators due to passenger volume decline. This is largely mitigated in the short term by the UK Government's EMAs and subsequent ERMAs and the role of the OLR in maintaining passenger operations in the event of a TOC failure. The Group's current rolling stock maintenance and enhancement plans may be subject to delays caused by COVID-19, however this is currently not considered a material risk.

In common with UK businesses generally, the Group is also exposed to other risks including access to capital markets, impacts on supply chains, employee health and access to the workplace. The Group has introduced governance processes to closely monitor the impacts and where possible, mitigation has been put in place to limit the impact. The Group maintains a prudent level of liquidity to cater for adverse business conditions in the event of a prolonged severe period of disruption.

At this stage, the Directors do not believe that COVID-19 presents any material risks to the Group, nor changes to risk management as described in note 32. The Directors consider the key critical judgement in reaching this conclusion to be the UK Government's continued support to the rail industry. Nevertheless, the Directors continue to keep the position under review, monitoring events and a range of possible outcomes, as the full impact of COVID-19 emerges.

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.

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 12).

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.

3 Summary of significant accounting policies (continued)

3.1 Accounting for lease transactions (continued)

The Group as lessor (continued)

Amounts due from lessees under a finance lease are recognised 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, together with interest on overdue tax.

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” rolling stock and other railway assets were restated 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 expenditure necessary to progress the construction of assets.

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.

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 depreciation charge is included in the Income statement as detailed in notes 5 and 8.

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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

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 risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. The impairment 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 the 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.

Restructuring/renegotiation of financial instruments

A financial asset or financial liability that is renegotiated/restructured is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the renegotiated/restructured asset or liability is a substantially different financial instrument. The difference between the carrying value of the original agreement and the amount at which the new agreement is initially recognised, is reflected in the Income statement.

Where the terms are not substantially different, the carrying value of the original (unmodified) instrument is replaced by the present value of the cashflows of the modified instrument, discounted at the effective interest rate of the original instrument. Any corresponding adjustment is recognised in the Income statement.

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.

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Derivatives and hedge accounting (continued)

Derivative financial instruments are recognised at fair value. 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.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.

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 and the Group implemented these amendments early with effect from 1 January 2019.

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 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.

Adopting these amendments early has allowed the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Determination of fair value

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

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

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

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

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

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

3.9 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 costs are expensed as incurred.

3 Summary of significant accounting policies (continued)

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.

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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

3.16 Use of judgements, estimates and assumptions (continued)

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 31.

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.

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)	
	2020 £'000	**2019 £'000**
End of final lease term		
1 year increase	**90,607**	83,000
1 year reduction	**(87,871)**	(92,000)
Projected rentals:		
1% increase	**27,405**	32,000
1% reduction	**(27,405)**	(32,000)
Discount rate:		
0.1% increase	**(29,129)**	(33,000)
0.1% reduction	**29,579**	34,000

c. Tax

The Group's current tax expense and current tax liability reflect management's best estimate and judgement regarding the amount of UK corporation tax payable for the current and previous periods. Management uses its judgement to evaluate uncertain tax provisions, which are assessed on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities.

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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

4 Revenue from contracts with customers

4.1 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 2020 £'000	**Year ended 31 December 2019 £'000**
Operating lease rental income	**390,196**	369,652
Finance lease income	**528**	586
Revenue from contracts with customers		
- Maintenance income	**42,877**	65,561
- Other income	**5,087**	6,765
	438,688	442,564

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 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 when first written), as expenditure is incurred.

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2020 is set out below.

As maintenance expenditure is incurred, the Group expects that these performance obligations will be satisfied (i.e. income will be generated) in the following periods:

	2020 £'000	**2019 £'000**
Within 1 year	**43,556**	62,394
1-5 years	**98,192**	87,606
	141,748	150,000

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

4 Revenue from contracts with customers (continued)

4.1 Revenue information (continued)

Other income

Other income primarily relates to the provision in the UK of asset management services £5,087,000 (2019: £6,765,000).

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2020 is set out below.

Performance obligations (i.e. income will be generated) are expected to be fulfilled in relation to customers in the following periods:

	2020 £'000	2019 £'000
Within 1 year	**3,255**	3,171
1-2 years	**3,255**	3,171
2-5 years	**10,764**	10,513
>5 years	**33,360**	34,883
	50,634	51,738

4.2 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		
	As at 31 December 2020 £'000	As at 31 December 2019 £'000	As at 1 January 2019 £'000
Contract assets	**2,037**	4,568	16,363
Contract liabilities	**53,364**	23,996	24,219
Trade receivables	**8,069**	8,326	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 obligations 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 £23,996,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2020 (2019: £24,219,000).

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 2020

5 Cost of sales

	Group	
	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Depreciation – rolling stock and other railway assets	**(177,837)**	(175,860)
Write-down of rolling stock (see note 12)	**(12,450)**	-
Depreciation – right-of-use asset – other railway assets	**(195)**	(194)
Maintenance cost	**(38,060)**	(46,968)
Write-down in the value of inventories	**(209)**	(225)
	(228,751)	(223,247)

6 Finance income

	Group	
	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Bank interest	**624**	340

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

7 Finance expense

	Group	
	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest payable to Eversholt UK Rails Limited	**(48,023)**	(47,891)
Profit participating preference share dividend	**(255)**	(259)
Interest payable on bank loans	**(175)**	(443)
Interest payable on bonds	**(99,610)**	(93,344)
Other finance costs	**(3,743)**	(2,741)
Unwinding of capitalised borrowing costs	**(2,406)**	(2,331)
Finance expense in relation to financial liabilities carried at amortised cost	**(154,212)**	(147,009)
Transfer from hedging reserve (note 17)	**(353)**	(710)
Lease liability interest (note 16)	**(114)**	(131)
Interest payable in relation to swaps	**(17,203)**	(16,800)
Other interest costs	**(1,939)**	(3,100)
Total	**(173,821)**	(167,750)

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

8 Administrative expense

Administrative expense includes:

	Group	
	Year ended 31 December 2020 £'000	**Year ended 31 December 2019 £'000**
Foreign exchange gain	**8**	19
Depreciation – other assets	**(246)**	(280)
Depreciation – right-of-use assets	**(489)**	(495)
Defined contribution pension costs	**(781)**	(798)
Fees payable to the Company's auditor for the audit of the Group's annual financial statements	**(365)**	(305)
Fees payable to the Company's auditor		
- For non-audit assurance services	**(45)**	(34)

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

9 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 2020 Number	**Year ended 31 December 2019 Number**
Directors	**5**	4
Operations	**46**	50
Administration	**56**	54
	107	108

The aggregate payroll costs of these persons were as follows:

	Group	
	Year ended 31 December 2020 £'000	**Year ended 31 December 2019 £'000**
Wages and salaries	**(11,231)**	(11,884)
Social security costs	**(1,436)**	(1,448)
Contributions to defined contribution pension scheme	**(781)**	(798)
Defined benefit pension scheme service cost	**(420)**	(351)
	(13,868)	(14,481)

10 Directors' emoluments

	Group	
	Year ended 31 December 2020 £'000	**Year ended 31 December 2019 £'000**
Directors' emoluments for services to the Group	**(2,121)**	(2,124)

The emoluments of the highest paid Director, including benefits in kind were £954,000 (2019: £962,000). The accrued pension contributions paid by the Group in respect of the highest paid Director for the year were £nil (2019: £nil). None of the Directors has any share options or interests in the share capital of the Company.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

11 Income tax charge

	Note	Group Year ended 31 December 2020 £'000	Group Year ended 31 December 2019 £'000
Current tax			
UK Corporation tax			
- On current year profit		**(3,847)**	(5,531)
- On prior years' profit		**1,705**	(3,629)
		(2,142)	(9,160)
Deferred tax			
Origination and reversal of temporary differences	***18***	**(6,201)**	(1,610)
Change in tax rate	***18***	**(6,275)**	213
Adjustment in respect of prior year	***18***	**5,570**	1,216
		(6,906)	(181)
Income tax charge		**(9,048)**	(9,341)

Corporation and deferred taxes have been calculated by reference to the current tax rate of 19%. A reduction to 17% was due to take effect from April 2020 and this had been reflected in arriving at deferred tax balances at 31 December 2019. However, the reduction was reversed by the UK Government and the change substantively enacted on 17 March 2020. This has led to the tax credit attributable to "change in tax rate" shown in the above analysis.

The following table reconciles the tax (charge)/credit which would apply if all profits had been taxed at 19% (2019: 19%).

	Group Year ended 31 December 2020 £'000	Group Year ended 31 December 2019 £'000
Profit before tax	**18,649**	31,726
Taxation at corporation tax rate 19% (2019: 19%)	**(3,543)**	(6,028)
Change in tax rates	**(6,275)**	213
Prior years adjustment	**7,275**	(2,413)
Non-taxable income	**2,722**	3,637
Permanent tax differences	**(103)**	-
Unrecognised tax attribute*	**(9,124)**	(4,750)
Income tax charge	**(9,048)**	(9,341)

* This is mainly relates to an unrecognised deferred tax asset of £9,124,000 in relation to interest expense disallowed for tax purposes in the financial year under the Corporate Interest Restriction (CIR) rules. The Group does not expect to have sufficient interest allowance in future years for the asset to unwind and as such a deferred tax asset has not been recognised.

In addition to the amount charged to the Income statement, the aggregate amount of deferred tax relating to components of other comprehensive income, resulted in a gain of £9,183,000 recognised in total comprehensive income (2019: £11,127,000 gain).

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

12 Property, plant and equipment

	Other assets £'000	Rolling stock and other railway assets £'000	Total £'000
Cost			
Balance at 1 January 2019	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**
Additions	**365**	**80,576**	**80,941**
Disposals	**-**	**(37,078)**	**(37,078)**
Balance at 31 December 2020	**3,712**	**3,520,428**	**3,524,140**
Accumulated depreciation and write-downs			
Balance at 1 January 2019	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**
Charge for the year	**246**	**177,837**	**178,083**
Write-down	**-**	**12,450**	**12,450**
Disposals	**-**	**(37,078)**	**(37,078)**
Balance at 31 December 2020	**3,243**	**1,286,801**	**1,290,044**
Carrying value at 31 December 2020	**469**	**2,233,627**	**2,234,096**
Carrying value at 31 December 2019	350	2,343,338	2,343,688

The cost of rolling stock and other railway assets at 31 December 2020 includes capitalised interest of £45,250,000 (2019: £45,097,000). The capitalisation rate used is the rate of interest attaching to the Group's borrowings attributable to the acquisition of rolling stock, see note 23 for more details. Cost includes rolling stock in the course of construction of £nil (2019: £549,646,000).

Other assets relate to equipment, fixtures and fittings.

The depreciation charge on rolling stock is included within cost of sales in the Income statement. The depreciation on other assets is included in administrative expense. Following a review of recoverable values, the Company has written down the net book value of rolling stock by £12,450,000 (2019: £nil). This reflects the extent to which the net book value of rolling stock exceeded recoverable value.

2020 additions include a debit from other comprehensive income (being a realised loss on cashflow hedges) of £11,447,000 (2019: £10,816,000 credit), bank loan capitalised interest of £96,000 (2019: £116,000) and bond capitalised interest of £57,000 (2019: £5,205,000).

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

13 Right-of-use assets

	Land and buildings £'000	Plant and equipment £'000	Other railway assets & land £'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**
Additions	-	-	-	-
Depreciation charge	**(482)**	**(7)**	**(195)**	**(684)**
As at 31 December 2020	**1,954**	**10**	**1,656**	**3,620**

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

14 Finance lease receivables

	Group	
	2020	**2019**
	£'000	**£'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	**3,683**	5,065
Later than five years	**-**	-
Gross investment in finance leases	**5,064**	6,446
Unearned finance income	**(646)**	(1,030)
Net investment in finance leases less provisions	**4,418**	5,416
Amortisation of finance lease receivables:		
Amounts falling due:		
No later than one year	**1,083**	997
Later than one year and no later than five years	**3,335**	4,419
Later than five years	**-**	-
Present value of minimum lease receivables	**4,418**	5,416
Aggregate finance lease income receivable in the year	**528**	586

The Group has entered into a finance leasing arrangement for one of its depots. This lease is due to expire in 4 years' time.

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.

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 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.

15 Trade and other receivables

	Group	
	2020	**2019**
	£'000	**£'000**
Trade receivables	**13,762**	8,236
Other receivables	**2,257**	2,474
	16,019	10,710

Trade receivables includes £5,218,000 (2019: £nil) in relation to operating lease rentals that have been accrued and for which a 12 month expected credit loss allowance of £353,000 (2019: £nil) has been charged during the year. The allowance reflects a revised rental payment profile, pursuant to changes in commercial arrangements.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

16 Lease liabilities

	Land and buildings £'000	Plant and equipment £'000	Other railway assets - land £'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**
Additions	**-**	**-**	**-**	**-**
Interest charge	**67**	**-**	**47**	**114**
Payments	**(766)**	**-**	**(268)**	**(1,034)**
As at 31 December 2020	**2,877**	**18**	**2,170**	**5,065**

Total lease liabilities can be analysed as follows:

	2020 £'000	2019 £'000
Current	**970**	820
Non-current	**4,095**	5,165
	5,065	5,985

Maturity of lease liabilities

The maturity profile of the Group's undiscounted lease liabilities at 31 December 2020 was as follows:

	2020 £'000	2019 £'000
Current	**1,070**	937
In more than one year but not more than two years	**827**	873
In more than two years but not more than five years	**2,313**	3,151
In more than five years	**1,289**	1,598
Non-Current	**4,429**	5,622

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

17 Derivative financial instruments

The fair value of derivative financial instruments shown in the Statement of financial position, includes related accrued interest. In the Group's 2019 Financial Statements, such accrued interest was included under the heading of "Borrowings" in the Statement of financial position.

Amounts included under each "Derivative financial instruments" heading are analysed below:

	Note	2020 £'000	2019 £'000
Non-current assets			
Fair value - excluding accrued interest	***See below***	**46,883**	21,821
Accrued interest	***24***	**1,442**	-
		48,325	21,821
Current liabilities			
Fair value - excluding accrued interest	***See below***	**-**	(744)
Accrued interest	***24***	**-**	-
		-	(744)
Non-current liabilities			
Fair value - excluding accrued interest	***See below***	**(200,674)**	(171,213)
Accrued interest	***24***	**(3,887)**	-
		(204,561)	(171,213)
Total derivative financial instruments (excluding accrued interest)		**(153,791)**	(150,136)
Total accrued interest	***24***	**(2,445)**	-

Excluding accrued interest, the fair values of the derivative financial instruments are as follows:

31 December 2020	**Notional Amount £'000**	**Fair Value Amount £'000**	**Change in fair value used for calculating hedge ineffectiveness £'000**
Non-current assets			
Interest rate swap contracts	**250,365**	**46,883**	**-**
Current liabilities			
FX forward contracts – hedge accounted	**-**	**-**	**458**
Interest rate swap contracts	**-**	**-**	**-**
	-	**-**	**458**
Non-current liabilities			
Interest rate swap contracts	**850,365**	**(187,498)**	**-**
Interest rate swap contracts – hedge accounted	**237,500**	**(13,176)**	**(50,321)**
	1,087,865	**(200,674)**	**(50,321)**
Total liabilities	**1,087,865**	**(200,674)**	**(49,863)**
Total derivative financial instruments	**1,338,230**	**(153,791)**	**(49,863)**

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

17 Derivative financial instruments (continued)

31 December 2019	Notional Amount £'000	Fair Value Amount £'000	Change in fair value used for calculating hedge ineffectiveness £'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)

The fair value of derivative financial instruments is based on market rates on 31 December 2020.

Movement in fair value of Derivative financial instruments

	Foreign exchange forward contracts	Interest rate swap contracts		
	Current hedge accounted £'000	Not hedge accounted £'000	Current hedge accounted £'000	Total £'000
Balance as at 1 January 2020	**(458)**	**(100,062)**	**(49,616)**	**(150,136)**
Unrealised (loss)/gain through the Income statement				
- Hedge ineffectiveness	**2**	**-**	**851**	**853**
- Other	**-**	**(6,758)**	**-**	**(6,758)**
	2	**(6,758)**	**851**	**(5,905)**
- Settlement	**-**	**52,966**	**-**	**52,966**
- Transfer*	**-**	**(86,761)**	**86,761**	**-**
Unrealised loss through Other comprehensive income	**456**	**-**	**(51,172)**	**(50,716)**
Balance as at 31 December 2020	**-**	**(140,615)**	**(13,176)**	**(153,791)**
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)

*The amount transferred represents the fair value of interest rate swaps at the time when their related hedge relationship was de-designated/designated during the year.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

17 Derivative financial instruments (continued)

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 2020	**7,598**	**72**	**39,948**	**3,874**	**51,492**
Unrealised loss through Other comprehensive income	**(456)**	**-**	**51,172**	**-**	**50,716**
Revaluation of EUR cash deposits through Other comprehensive income	**1,287**	**-**	**-**	**-**	**1,287**
Effective portion of changes in fair value of cash flow hedges	**831**	**-**	**51,172**	**-**	**52,003**
Realised gain on cash flow hedges to Income statement	**-**	**-**	**-**	**(1,153)**	**(1,153)**
Release to Property, plant and equipment	**(11,360)**	**(87)**	**-**	**-**	**(11,447)**
Transfer**	**-**	**-**	**(97,644)**	**97,644**	**-**
Release to Income statement	**-**	**-**	**-**	**(353)**	**(353)**
Income tax on Other comprehensive income	**1,816**	**15**	**7,867**	**(18,359)**	**(8,661)**
Balance as at 31 December 2020	**(1,115)**	**-**	**1,343**	**81,653**	**81,881**
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

**Transfer relates to the termination of a hedge relationship in June 2020. The hedged item, being forecast interest costs, is still expected to arise and therefore related amounts have been reclassified accordingly. The gross amount transferred is £97,644,000 and related deferred tax is £18,552,000.

17.1 Foreign exchange forward contracts

During the year, the Group settled all foreign exchange forward contracts which had been contracted to hedge the variability in functional currency equivalent cash flows associated with committed EUR denominated capital expenditure. On inception, each contract was designated in a hedge accounting relationships.

During 2020, the designated hedges were deemed to be highly effective. The fair value liability of the foreign exchange forward contracts at 31 December 2020 was £nil (2019: £458,000).

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

17 Derivative financial instruments (continued)

17.1 Foreign exchange forward contracts (continued)

Hedge ineffectiveness of £2,000 gain (2019: £467,000 gain) comprised the difference between the change in the fair value of the:

- hedged item used as a basis of recognising hedge ineffectiveness of £456,000 loss (2019: £22,444,000 gain); and
- foreign exchange forward contracts used as a basis of recognising hedge ineffectiveness of £458,000 gain (2019: £21,977,000 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 £11,447,000 (2019: £11,395,000 gain) 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 £1,287,000 (2019: £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 32.5 for details of foreign exchange risk management.

17.2 Interest rate swap contracts

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

Maturity	2020 Notional value £’000	2019 Notional value £’000
Within 1 year	**-**	**300,000**
1 to 5 years	**-**	**-**
More than 5 years	**1,338,230**	**1,131,517**

At 31 December 2020, the Group held interest rate swaps with a fair value liability of £140,615,000 (2019: £100,062,000 liability) which were not designated in hedging relationships for accounting purposes.

Cumulative unrealised losses of £81,653,000 (2019: £3,874,000) 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, when the original hedged future cash flows occur.

The reduction in notional principal in 2020 reflects contracted notional profiles associated with swaps entered into for the pre-funding of new build rolling stock capital expenditure.

As at 31 December 2020, the Group’s hedge accounted swaps were deemed to be highly effective and the fair value liability associated to these interest rate swaps was £13,176,000 (2019: £49,616,000).

17 Derivative financial instruments (continued)

17.2 Interest rate swap contracts (continued)

Hedge ineffectiveness gain of £851,000 (2019: £954,000 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 £51,172,000 (2019: £28,350,000 gain); and
- interest rate swaps used as a basis of recognising hedge ineffectiveness loss of £50,321,000 (2019: £29,304,000 loss).

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 (2019: £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 32 for details of interest rate risk management.

17.3 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 Group will therefore re-negotiate and/or otherwise amend to accommodate such change in benchmarks, instruments due to mature after 2021. Description of the Group's actions in response to interest rate benchmark reform can be found in note 32.5.4.

18 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	
	2020	**2019**
	£'000	**£'000**
Deferred tax liabilities	**81,826**	75,364
Deferred tax assets	**(42,561)**	(33,822)
	39,265	41,542

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)
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18 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 £000's	Provision £000's	Fair value of derivatives £000's	Retirement benefit obligations £000's	Tax losses £000's	Other tax attributes £000's	Total £000's
At 1 January 2019	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**
(Credit)/charge to Income Statement	**(6,569)**	**1**	**8,941**	**(64)**	**3,847**	**45**	**6,201**
Credit to other comprehensive income	**-**	**-**	**(7,420)**	**(392)**	**-**	**-**	**(7,812)**
Effect of change in tax rate:							
- Income statement	**8,883**	**(50)**	**(2,169)**	**-**	**(357)**	**(32)**	**6,275**
- Other comprehensive income	**-**	**-**	**(1,241)**	**(130)**	**-**	**--**	**(1,371)**
Prior year adjustments	**4,148**	**(108)**	**-**	**-**	**(9,610)**	**-**	**(5,570)**
At 31 December 2020	**81,826**	**(578)**	**(30,875)**	**(1,694)**	**(9,155)**	**(259)**	**39,265**

Deferred taxes have been calculated by reference to the current tax rate of 19%. A reduction to 17% was due to take effect from April 2020 and this had been reflected in arriving at deferred tax balances at 31 December 2019. However, the reduction was reversed by the UK Government and the change substantively enacted on 17 March 2020. This has led to the tax credit attributable to "change in tax rate" shown in the above analysis.

19 Investments in subsidiaries

	Group	
	2020 £'000	**2019 £'000**
Cost as at 31 December 2020	-	-

The Company's investment in Eversholt Rail (365) Limited had been 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 2020	Ownership Percentage 2019
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	nil	100
Eversholt Rail Limited*	Ordinary Shares	England***	Management services	100	100

Notes to the annual financial statements (continued)
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19 Investments in subsidiaries (continued)

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2020	Ownership Percentage 2019
Eversholt Depot Finance Limited*	Ordinary Shares	England***	Leasing	100	100
Eversholt Rail (365) Limited*	Ordinary Shares	England***	Leasing	nil	nil
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.

20 Inventory

	Group	
	2020 £'000	2019 £'000
Rolling stock spares	**302**	511

Write-down in the value of inventories recognised during the year was £209,000 (2019: £225,000) (note 5). Stock is measured at the lower of cost and net realisable value.

21 Cash and cash equivalents

	Group	
	2020 £'000	2019 £'000
Cash	**81,534**	71,963
Cash and cash equivalents	**81,534**	71,963

Within cash and cash equivalents there is a deposit of £2,600,000 (2019: £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 (2019: £500,000) is restricted cash in line with the terms of an agreement with the security trustee for the Group's secured creditors.

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

22 Trade and other payables

	Group	
	2020	**2019**
	£'000	**£'000**
Trade payables	**20,322**	13,091
Lease rentals received in advance	**24,855**	14,125
Maintenance, acquisition and administrative accruals	**21,322**	28,196
Other accruals	**243**	221
	66,742	55,633

23 Borrowings

	Group	
	2020	**2019**
	£'000	**£'000**
Current		
Interest accrued	**18,330**	23,291
Bonds	**39,927**	300,000
Bank loans	**-**	85,000
Other loan	**6,095**	-
Transaction costs	**(532)**	(630)
	63,820	407,661
Non-current		
Bonds	**1,930,423**	1,640,000
Other loan	**-**	5,999
Transaction costs	**(5,981)**	(4,390)
Profit Participating Shares	**2,500**	2,500
Loan from Eversholt UK Rails Limited	**340,562**	340,562
	2,267,504	1,984,671
Total borrowings	**2,331,324**	2,392,332

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 2020 and 2019.

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
£271m*	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%
£500m*	2021-2040	2.742%

None of the Bonds is puttable.

23 Borrowings (continued)

*The above table includes new bond issuance of £500,000,000 in June 2020, of which £159,700,000 was used to repay £128,700,000 of the £400,00,000 bonds otherwise maturing in 2025 (“2025 Debt”). The principal amount of 2025 debt therefore reduced to £271,300,000 on 30 June 2020. The part repayment has been accounted for as a debt modification and not as an extinguishment of the original debt and issue of new debt under IFRS 9 Financial Instruments. This is on the basis that the terms of the debt have not substantially changed. Accordingly, the carrying value of the existing debt is restated to equal the present value of modified cashflows, giving rise to a gain of £11,354,000 recognised in the income statement. The revised cashflows are discounted at the effective interest rate associated with the original 2025 Debt which equates to a carrying value of £117,300,000 included in non-current borrowings above.

The Group received the remaining £340,300,000 proceeds from the new issue in cash, which has been used to settle £300,000,000 of bonds which matured in December 2020 (a net of £40,300,000 shown in the table below – note 24). The Group also used the proceeds to part repay outstanding bank loans. The remainder of bank loans outstanding on 31 December 2019 was repaid from operational cash flows.

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 2020 was as follows:

	Group	
	2020	**2019**
	£’000	**£’000**
In more than one year but not more than two years	**54,212**	20,285
In more than two years but not more than five years	**433,987**	85,714
In more than five years	**1,785,286**	1,883,062
Transaction costs	**(5,981)**	(4,390)
	2,267,504	1,984,671

24 Reconciliation of assets and liabilities arising from financing activities

31 December 2020	**As at 31 December 2019 £’000**	**Non-cash finance expense £’000**	**Cash Flows receipts/ (payments) £’000**	**As at 31 December 2020 £’000**
Financing activities attributable to:				
Liabilities				
Bond interest accrued*	**20,298**	**99,667***	**(101,717)**	**18,248**
Swap Interest accrued	**2,867**	**17,203**	**(17,625)**	**2,445**
Bank loan interest accrued	**45**	**175**	**(220)**	**-**
Bank loans	**85,000**	**-**	**(85,000)**	**-**
Profit Participating Share dividends	**81**	**255**	**(254)**	**82**
Bonds	**1,940,000**	**(9,998)****	**40,347**	**1,970,349**
Profit Participating shares	**2,500**	**-**	**-**	**2,500**
Loan from Eversholt UK Rails Limited	**340,562**	**48,023**	**(48,023)**	**340,562**
Other loan	**5,999**	**96*****	**-**	**6,095**
	2,397,352	**155,421**	**(212,492)**	**2,340,281**
Assets				
Capitalised transaction costs	**(5,020)**	**988**	**(2,481)**	**(6,513)**

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

24 Reconciliation of assets and liabilities arising from financing activities (continued)

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)	647	-	(5,020)

*Bond capitalised interest of £57,000 (2019: £5,205,000) transferred to Property, plant and equipment (see note 12).
**This includes the gain/loss on refinancing together with related fees.
***Bank loan capitalised interest of £96,000 (2019: £116,000) is transferred to Property, plant and equipment (see note 12).

25 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 2020 £'000	Group 2019 £'000
Current	**18,206**	5,624
Non-current	**117,357**	124,740

26 Provisions

	Group 2020 £'000	Group 2019 £'000
Current	**-**	40
Non-current	**165**	161
	165	201

Provision relates to dilapidations on leased office buildings. Contractual amounts are due to be incurred within the term of lease which ends June 2025.

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

26 Provisions (continued)

	Total 2020 £'000	Total 2019 £'000
Balance at beginning of the year	**201**	35
Additions	**-**	166
Utilised	**(36)**	-
Balance at the end of the year	**165**	201

27 Share capital

	Company	
	2020 £	**2019 £**
Authorised		
102 Ordinary shares of £1 each (2019: 102)	**102**	102
Allotted, called up and fully paid		
102 Ordinary shares of £1 each (2019: 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.

28 Capital commitments

In respect of rolling stock capital expenditure:

	Group	
	2020 £'000	**2019 £'000**
Authorised and contracted	**48,777**	164,761

The above represents all capital commitments.

29 Dividends

For the year ended 31 December 2020 dividends of £46,500,000 were paid (2019: £41,550,000).

30 Financial instruments

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

Group

31 December 2020	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	**17**	**48,325**		**48,325**	
Finance lease receivables	**14**	**4,418**			
Trade and other receivables	**15**	**16,019**			
Cash and cash equivalents	**21**	**81,534**			
Total financial assets		**150,296**			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	**17**	**204,561**		**204,561**	
Non-derivative instruments					
- Publicly traded bonds	**23**	**1,530,349**	**1,892,980**		
- Fixed rate borrowings	**23**	**340,000**		**406,692**	
- Other borrowings	**23**	**467,488**			
- Trade and other payables	**22**	**66,742**			
Total financial liabilities		**2,609,140**			
Total financial instruments		**(2,458,844)**			

Group

31 December 2019	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	*17*	21,821		21,821	
Finance lease receivables	*14*	5,416			
Trade and other receivables	*15*	10,710			
Cash and cash equivalents	*21*	71,963			
Total financial assets		109,910			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	*17*	171,957		171,957	
Non-derivative instruments					
- Publicly traded bonds	*23*	1,500,000	1,745,034		
- Fixed rate borrowings	*23*	340,000		372,317	
- Other borrowings	*23*	557,352			
- Trade and other payables	*22*	55,633			
Total financial liabilities		2,624,942			
Total financial instruments		(2,515,032)			

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

30 Financial instruments (continued)

The non-derivative financial liabilities measured at amortised cost can be reconciled to note 23 as follows:

	2020 £'000	2019 £'000
Non-derivative instruments as per above	**2,404,579**	2,452,985
Transaction costs	**(6,513)**	(5,020)
Trade and other payables	**(66,742)**	(55,633)
Borrowings per note 23	**2,331,324**	2,392,332

31 Retirement benefit obligations

31.1 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 2020 (19.60% for the year ended 31 December 2019).

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.
- 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.

Notes to the annual financial statements (continued)
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31 Retirement benefit obligations (continued)

31.2 Membership data

	31 December 2020	31 December 2019
Active members		
Number	**14**	15
Number with PRP included	**9**	10
Annual payroll (£'000)	**1,100**	1,163
PRP included (£'000)	**-**	40
Average age	**52.3**	50.7
Deferred members		
Number	**47**	49
Total deferred pensions (£'000)	**300**	348
Average age	**54.9**	53.9
Pensioner members (including dependants)		
Number	**53**	51
Estimated annual pension payroll (£'000)	**1,400**	1,316
Average age	**68.8**	67.8

31.3 Summary of assumptions

	31 December 2020 %pa	31 December 2019 % pa
Discount rate	**1.30**	1.85
Price inflation (RPI measure)	**2.95**	2.95
Increases to deferred pensions (CPI measure)	**2.60**	2.20
Pension increases (CPI measure)	**3.00**	2.20
Salary increases *	**2.55**	2.95

*plus 0.4% pa promotional salary scale.

Section assets	Value at 31 December 2020 £'000	Value at 31 December 2019 £'000
Growth assets	**25,609**	25,854
Government bonds	**11,085**	11,506
Non-government bonds	**7,552**	5,299
Other assets	**307**	(1)
	44,553	42,658

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

	31 December 2020	31 December 2019
Male currently age 65	**22.6**	23.1
Male currently age 45	**24.2**	24.9
Female currently age 65	**23.6**	23.9
Female currently age 45	**25.5**	25.7

Notes to the annual financial statements (continued)

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31 Retirement benefit obligations (continued)

31.4 Defined benefit liability at end of year

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Active members	**12,941**	10,859
Deferred members	**12,977**	13,032
Pensioner members (incl. dependants)	**33,493**	29,628
Total DBO	**59,411**	53,519
Value of assets at end of year	**(44,553)**	(42,658)
Funded status at end of year	**14,858**	10,861
Adjustment for the members' share of deficit	**(5,943)**	(4,344)
Net defined benefit liability at end of the year	**8,915**	6,517

31.5 Reconciliation of net defined benefit liability

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Opening net defined benefit liability	**6,517**	3,691
Employer's share of pension expense	**547**	447
Employer contributions	**(206)**	(200)
Total loss recognised in Statement of comprehensive income	**2,057**	2,579
Closing net defined benefit liability	**8,915**	6,517

31.6 Pension expense

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Employer's share of service cost	**389**	313
Employer's share of administration costs	**34**	38
Total employer's share of service cost	**423**	351
Employer's share of net interest on net defined benefit liability	**124**	96
Employer's share of pension expense	**547**	447

31.7 Other comprehensive income

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
(Gain)/loss due to liability experience	**(876)**	1
Loss due to liability assumption changes	**4,343**	4,186
Return on plan assets greater than discount rate	**(1,410)**	(1,608)
Total loss recognised in Statement of comprehensive income	**2,057**	2,579

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

31 Retirement benefit obligations (continued)

31.8 Reconciliation of DBO

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Opening DBO	**53,519**	46,346
Service cost	**645**	518
Interest cost on DBO	**987**	1,208
Gain on DBO - experience	**(1,497)**	(28)
Gain on DBO – demographic assumptions	**(1,123)**	-
Loss on DBO - financial assumptions	**8,362**	6,977
Actual benefit payments	**(1,482)**	(1,502)
Closing DBO	**59,411**	53,519

This obligation is projected to mature as follows:

Time period	**Expected payments £'000**
5 years to 31 December 2025	**8,500**
5 years to 31 December 2030	**10,200**
5 years to 31 December 2035	**11,300**
5 years to 31 December 2040	**11,400**
After 1 January 2041	**36,000**

31.9 Reconciliation of value of assets

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Opening value of Section assets	**42,658**	40,195
Interest income on assets	**780**	1,048
Return on plan assets greater than discount rate	**2,350**	2,682
Employer contributions	**206**	200
Employee contributions	**102**	99
Actual benefit payments	**(1,482)**	(1,502)
Administration costs	**(61)**	(64)
Closing value of Section assets	**44,553**	42,658

Tables 31.8 and 31.9 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

31 Retirement benefit obligations (continued)

31.10 DBO sensitivity analysis to significant actuarial assumptions

Year ended 31 December 2020	Sensitivity	Approximate increase in DBO £'000
Discount rate	-0.25% p.a.	**2,800**
Price inflation (CPI measure)*	+0.25% p.a.	**2,700**
Salary increases	+0.25% p.a.	**200**
Life expectancy	+1 year	**2,400**

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

The sensitivity figures above are as at 31 December 2020 and based on the DBO noted in table 31.4 and reflect a reasonable approximation of possible changes.

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

The discounted mean term of the Section's liabilities is 18 years. Expected employer contributions for 2021 is £212,000 (2019: £200,000).

32 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. There are also risks associated with the COVID-19 crisis, details of which are considered in note 2.4 "Going concern".

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.

32.1 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.

32 Risk management (continued)

32.1 Residual value risk (continued)

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 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.

32.2 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.

32.3 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;
- Third party credit report and analysis;
- 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.

32 Risk management (continued)

32.3 Credit risk management (continued)

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).

The Group's principal exposure to credit risk as at 31 December 2020 amounts to the balance of Trade and other receivables as disclosed in note 15, Contract assets as disclosed in note 4.2, Finance lease receivables as disclosed in note 14, Derivative financial instruments assets disclosed in note 17 and Cash and cash equivalents as disclosed in note 21. 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 2020 have been received subsequent to year end, other than where payment has been deferred, as described in note 15.

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 an ECL of £353,000 is required at 31 December 2020 (2019: £nil).

32.4 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 £600,000,000 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 2020

32 Risk management (continued)

32.4 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 2020						
Financial assets						
Finance lease receivables	**4,418**	**5,064**	**-**	**1,381**	**3,683**	**-**
Trade and other receivables	**16,019**	**16,019**	**-**	**16,019**	**-**	**-**
Derivative financial instrument	**48,325**	**50,549**	**-**	**3,564**	**13,072**	**33,913**
Cash and cash equivalents	**81,534**	**81,534**	**81,534**	**-**	**-**	**-**
	150,296	**153,166**	**81,534**	**20,964**	**16,755**	**33,913**
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	**204,561**	**215,423**	**-**	**11,117**	**42,908**	**161,398**
Amortised cost						
- Trade and other payables	**66,742**	**66,742**	**-**	**66,742**	**-**	**-**
- Borrowings	**2,337,837**	**3,211,179**	**-**	**131,627**	**809,660**	**2,269,892**
	2,609,140	**3,493,344**	**-**	**209,486**	**852,568**	**2,431,290**
Total financial instruments	**(2,458,844)**	**(3,340,178)**	**81,534**	**(188,522)**	**(835,813)**	**(2,397,377)**

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 equivalents	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)

The borrowings in the above table that are measured at amortised cost can be reconciled to note 23 as follows:

	2020 £'000	2019 £'000
Borrowings as per above	**2,337,837**	2,397,352
Less: transaction costs	**(6,513)**	(5,020)
Borrowings per note 23	**2,331,324**	2,392,332

33 Risk management (continued)

32.5 Market risk management

32.5.1 Foreign exchange risk

The Group hedges against foreign exchange risk on its EUR denominated capital expenditure as described in note 17.

A 50 basis points increase in Euro: GBP spot exchange rate would have resulted in an increase of £60,000 (2019: £176,511) in amounts recognised in the hedging reserve (note 17). The sensitivity analysis is applied to spot exchange rate at 31 December 2020 (2019: at 31 December 2019) and represents a reasonable approximation of possible change.

32.5.2 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	
	2020	**2019**
	£'000	**£'000**
Fixed rate instruments		
Financial liability	**(2,210,912)**	(2,180,562)
Variable rate instruments		
Financial assets	**4,418**	5,416
Financial liability	**(108,595)**	(193,499)
	(104,263)	(188,083)

32.5.3 Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in a decrease in interest expense of £450,000 (2019: £487,000) and an increase interest received on cash amounts of £1,132,000 (2019: £753,000). 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 fair value gain of £12,765,000 (2019: £6,830,000 gain) in derivative financial instruments.

32.5.4 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 uses 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 Group 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 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.

32 Risk management (continued)

32.5.4 Approach to hedging (continued)

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:

- 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 17, the hedged items are highly probable future 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 has established a transition workstream to consider and recommend an appropriate strategy for the management of this transition on its activities 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 17 and described as hedged accounted, will be affected by these IFRS 9 amendments. The notional value of these instruments is disclosed in note 17.

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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

33 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	
	2020	**2019**
	£'000	**£'000**
Within one year	**409,385**	346,554
1-2 years	**247,918**	226,806
2-3 years	**145,205**	207,388
3-4 years	**126,246**	157,556
4-5 years	**29,632**	150,127
Over 5 years	**24,351**	40,151
	982,737	1,128,582
Aggregate operating lease rentals receivable in the year	**390,196**	369,652

The Group as lessee:

The Group has subleases of certain right-of-use assets in relation to land and has recognised income of £145,000 during the year (2019: £268,000), which is included in the rentals receivables shown above.

34 Related-party transactions

34.1 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 which the Company is a member of, is UK Rails S.A.R.L.. The Company's immediate parent is Eversholt UK Rails Limited.

Copies of the Group financial statements of UK Rails S.A.R.L. and subsidiaries may be obtained from the following registered address:

7, rue du Marché-aux-Herbes

L-1728 Luxembourg

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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2020

34 Related-party transactions (continued)

34.2 Transactions with related parties

The loan with Eversholt UK Rails Limited is more fully described in note 23. Interest on this loan is disclosed in note 7.

The Group received fees of £nil (2019: £9,562,000) during the year for the provision of maintenance procurement and management services to Eversholt Rail (365) Limited.

The Group was charged a management service fee of £120,000 (2019: £120,000) by Eversholt UK Rails Limited during the year.

The amount of £8,000 (2019: £nil) owed by Eversholt UK Rails Limited relates to the consideration due to the Group for tax losses surrendered.

34.3 Remuneration of key management personnel

	Group	
	2020	**2019**
	£'000	**£'000**
Short-term employment benefits	**1,862**	1,881
Other long-term employment benefits	**312**	296
	2,174	2,177

Directors' emoluments are disclosed in note 10.

35 Contingent liabilities

There were no contingent liabilities for the Group at 31 December 2020 (2019: £nil).

36 Subsequent events

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