

European Rail Finance Holdings Limited

Annual report and financial statements for the financial year ended 31 December 2021

Registered No: IR443562

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

Annual report and financial statements

for the financial year ended 31 December 2021

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Directors' report

for the financial year ended 31 December 2021

The Directors present their Annual report together with the audited financial statements for the financial year ended 31 December 2021.

Principal activities

European Rail Finance Holdings Limited (the "Company") is an investment holding company and continues to own all of the share capital of European Rail Finance (2) Limited, Eversholt Rail Leasing Limited and Eversholt Finance Holdings Limited.

The Company forms part of the Eversholt UK Rails Group (the "Group"), more fully described in note 17. The Company also forms part of the group of companies (the "Security Group") that are bound by the terms of the financing arrangements established on 4 November 2010 (the "Financing Documents") for the debt raised by Eversholt Funding plc, a fellow Security Group company. The Security Group comprises the Group excluding Eversholt UK Rails Limited, the parent company of the Group.

During the financial year, the Company received dividends of £nil (2020: £nil).

The Company is expected to liquidate in 2022.

Business review

In the financial year, the Company generated a loss of £439,000 (2020: loss of £118,000). The increase in losses in 2021 resulted from lower finance income received. As at 31 December 2021 the Company had net assets of £127,491,000 (2020: £224,930,000).

The Company is funded by borrowings and equity from its immediate parent.

The Company lends its surplus cash to Eversholt Rail Limited. The Company has no employees. Directors have been remunerated by another group undertaking, Eversholt Rail Limited.

Risk management

The Company is subject to the risk management objectives and policies of the Group. The risks relevant to the Company, together with an analysis of the exposure to such risks, are set out in note 16 of the financial statements.

The principal business risk for the Company is the risk of diminution in the value of investments in its subsidiaries. Matters in relation to COVID-19 are set out below.

COVID-19

The Directors have considered the potential impacts of COVID-19 upon the Company and its ability to meet commitments for the period of at least 12 months from the date the financial statements are authorised for issue. The Company is exposed to the impacts of COVID-19 through its relationships with fellow group undertakings, which are ultimately dependent on the viability of the Group's rolling stock leasing business.

Given the nature of the Group's underlying contracts, the Directors have a good degree of certainty over its cashflows in the short to medium term and do not expect any significant negative impacts arising from the pandemic over the next 12 months. However, one area of potential impact upon the Group's business in the longer term is a sustained decline in demand for passenger rolling stock, given the pandemic's impact on commuting and transport habits. The extent to which passenger numbers recover in the medium to long-term is uncertain, albeit this may not necessarily adversely affect rolling stock capacity requirements. The Group's current rolling stock maintenance and enhancement plans may be subject to delays caused by COVID-19, however this is 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 Directors continue to keep the demand for its passenger rolling stock under review as the full impact of COVID-19 emerges. The Group maintains a prudent level of liquidity to cater for adverse business conditions in the event of a prolonged severe period of disruption.

Directors' report (continued)

for the financial year ended 31 December 2021

COVID-19 (continued)

At this stage, the Directors do not believe that COVID-19 presents any material risks to the Company, nor changes to risk management as described in note 16. In light of the above therefore, the Directors consider the key critical judgement in reaching this conclusion to be the medium to long-term demand for passenger rolling stock.

Financial performance

The Company's results for the financial year are detailed in the Income statement on page 10.

The Group manages its operations on a consolidated basis, therefore the Company's Directors believe that further specific performance measures for the Company are not necessary or appropriate for an understanding of its performance. Performance measures for the Group are disclosed in the accounts of Eversholt UK Rails Limited.

Business environment

The Directors monitor the business environment in which the Company and its subsidiaries operates from a group perspective and details of relevant matters, including the withdrawal of the United Kingdom from the European Union, changes in the UK rail industry and climate change, are disclosed in the financial statements of Eversholt UK Rails Limited.

Political donations

No political donations were made during the financial year (2020: £nil).

Directors

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

Name

M B Kenny

A J Wesson

The Company Secretary who served at any time during the financial year and up to the date of signing was Michelle Sharma.

The Directors and the Company Secretary do not have any interest in the equity shares of the parent company.

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 Company has considered the 'Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018' (the "Regulations"), effective from 1 January 2020.

During 2020 and 2021:

- the Company did not consume any energy within the scope of the Regulations and therefore has been excluded from disclosure;
- the only company within the Eversholt UK Rails Group that consumed energy is Eversholt Rail Limited, from which the Company had received services during the year. Information required by the Regulations in respect of Eversholt Rail Limited is set out in its Annual report financial statements for the year ended 31 December 2021.

Directors' report (continued)

for the financial year ended 31 December 2021

Future developments

It is currently anticipated that the Company will be voluntarily liquidated in 2022 at a time yet to be determined as part of the ongoing simplification of the Group structure.

Dividends

During the financial year, the Directors declared and paid dividends of £97,000,000 (2020: £94,500,000). Additionally, dividends of £495,000 (2020: £495,000) relating to fixed rate preference shares were paid during the year.

Going concern basis

As part of the ongoing simplification of the Group structure it is anticipated that the Company will be voluntarily liquidated in 2022. The Company therefore is not a going concern. As such, the financial statements have been prepared on a basis other than that of a going concern as required by IAS 1 "Presentation of Financial Statements".

The carrying value of the assets and liabilities held by the Company have been reassessed and recorded at their realisable value.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the potential impact of COVID-19 upon the business described above.

Disclosure of information to the auditor

Each person who is a director at the date of approval of this Annual report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that she ought to have taken as a director to make herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330 of the Companies Act 2014 (as amended).

Accounting records

The Directors believe that they have complied with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to books of account by employing a service provider, which has appropriate expertise and provides adequate resources to the financial function. The accounting records of the Company are maintained primarily by Eversholt Rail Limited, Ground Floor, WeWork 1 Waterhouse Square, 138-142 Holborn, London, EC1N 2ST, United Kingdom, and held by European Rail Finance Holdings Limited, Riverside One, Sir John Rogerson's Quay, Dublin 2, D02 X576, Ireland.

Having regard to section 167 Companies Act 2014, the Board has decided not to establish an audit committee for the Company. This reflects the nature of the Company's activities and systems in relation to financial reporting processes, internal control and risk management. This, in turn, reflects the fact that the Company has a limited number of transactions to be reported in the Company's Financial statements. Activities that would have been undertaken by such a committee, including the review and monitoring of the independence of the statutory auditors and financial reporting, falls in the scope of the Audit and Risk Committee of Eversholt UK Rails Limited.

The Directors acknowledge that they are responsible for securing the Company's compliance with relevant obligations.

Directors' report (continued)

for the financial year ended 31 December 2021

Auditor

The auditors, Deloitte Ireland LLP continue in office.

Approved by the Board on 28 February 2022 and signed on its behalf on 15 March 2022 by:



M B Kenny
Director



A J Wesson
Director

Statement of Directors' responsibilities

for the financial year ended 31 December 2021

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with the Companies Act 2014.

Irish company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("relevant financial reporting framework"). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company as at the financial year end date and of the profit or loss of the company for the financial year and otherwise comply with the Companies Act 2014.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies for the Company financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website, where this is applicable.

Independent Auditor's report to the Members of European Rail Finance Holdings Limited

for the financial year ended 31 December 2021

Report on the audit of the financial statements

Opinion on the financial statements of European Rail Finance Holdings Limited (the 'Company')

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of the loss for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the Income Statement
- the Statement of Comprehensive Income;
- the Statement of Financial Position
- the Statement of Cash Flows
- the Statement of Changes in Equity;
- the related notes 1 to 19, including a summary of significant accounting policies as set out in note 3.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory 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.

Emphasis of matter – Financial statements prepared on a basis other than that of going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.3 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Other information

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

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

We have nothing to report in this regard.

Independent Auditor's report to the Members of European Rail Finance Holdings Limited (continued)

for the financial year ended 31 December 2021

Responsibilities of directors

As explained more fully in the Statement of Director's responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the Auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

Independent Auditor's report to the Members of European Rail Finance Holdings Limited (continued)

for the financial year ended 31 December 2021

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the Directors' report is consistent with the financial statements and the Directors' report has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Brian Murphy
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
Date: 22 March 2022

Income statement

for the financial year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Finance income	4	79	474
Finance expense	5	(495)	(495)
Administrative expense	7	(10)	(9)
Loss before tax		<u>(426)</u>	<u>(30)</u>
Income tax charge	8	(13)	(88)
Loss for the financial year		<u>(439)</u>	<u>(118)</u>

There were no discontinued or discontinuing operations during the financial year.

The notes on pages 14 to 25 form an integral part of these financial statements.

Statement of comprehensive income

for the financial year ended 31 December 2021

There has been no comprehensive income or expense other than the results for the financial year as shown above (2020: £nil).

Statement of financial position

as at 31 December 2021

Assets	Note	2021 £'000	2020 £'000
Non-current assets			
Investment in subsidiaries	9	86,011	86,011
Amounts owed by group undertaking	10	<u>91,042</u>	<u>188,554</u>
Total assets		<u>177,053</u>	<u>274,565</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	11	49	47
Borrowings	12	49,500	-
Current tax	8	<u>13</u>	<u>88</u>
		<u>49,562</u>	<u>135</u>
Non-current liabilities			
Borrowings	12	<u>-</u>	<u>49,500</u>
Total liabilities		<u>49,562</u>	<u>49,635</u>
Equity			
Share capital	14	500	500
Capital contribution		125,000	125,000
Retained earnings		<u>1,991</u>	<u>99,430</u>
Total equity		<u>127,491</u>	<u>224,930</u>
Total equity and liabilities		<u>177,053</u>	<u>274,565</u>

The notes on pages 14 to 25 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 28 February 2022 and authorised for issue on 15 March 2022. They were signed on its behalf by:



M B Kenny
Director



A J Wesson
Director

Company registration number IR443562

Statement of cash flows

for the financial year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flow from operating activities			
Loss before tax		(426)	(30)
Adjustment for:			
- Finance income	4	(79)	(474)
- Finance expense	5	495	495
Operating cash flow before changes in working capital		<u>(10)</u>	<u>(9)</u>
Increase in trade and other payables	11	2	2
Cash flow utilised by operating activities		<u>(8)</u>	<u>(7)</u>
Group relief paid		(88)	(369)
Net cash utilised by operating activities		<u>(96)</u>	<u>(376)</u>
Cash flow from investing activities			
Movement on amounts due from Eversholt Rail Limited	13	<u>97,591</u>	95,371
Net cash generated by investing activities		<u>97,591</u>	<u>95,371</u>
Cash flow from financing activities			
Fixed rate preference share interest paid	13	(495)	(495)
Dividends paid on ordinary shares	6	<u>(97,000)</u>	<u>(94,500)</u>
Net cash utilised in financing activities		<u>(97,495)</u>	<u>(94,995)</u>
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the financial year		-	-
Cash and cash equivalents at the end of the financial year		<u>-</u>	<u>-</u>

Statement of changes in equity

for the financial year ended 31 December 2021

	Note	Share capital £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020		500	125,000	194,048	319,548
Total comprehensive income		-	-	(118)	(118)
Dividends paid	6	-	-	(94,500)	(94,500)
Balance at 31 December 2020		500	125,000	99,430	224,930
Total comprehensive expense		-	-	(439)	(439)
Dividends paid	6	-	-	(97,000)	(97,000)
Balance at 31 December 2021		500	125,000	1,991	127,491

Dividends of £194,000 per share were paid during the financial year (2020: £189,000 per share).

Notes to the annual financial statements

for the financial year ended 31 December 2021

1 General Information

European Rail Finance Holdings Limited is a private company incorporated in the Republic of Ireland under the Companies Act 2014 and is limited by shares (see note 14). The registered office of the Company is Riverside One, Sir John Rogerson's Quay, Dublin 2, D02 X576, Ireland.

The place of central management and control of the Company is based in the UK, where the Company is tax resident.

2 Basis of Preparation

These financial statements are presented in sterling being the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The Company is exempt from the requirement to prepare consolidated financial statements by section 299 of the Companies Act 2014. These financial statements present information about the Company as an individual undertaking.

2.1 Compliance with IFRSs

The financial statements of the Company have been prepared on the historical cost basis. These financial statements have been prepared in accordance with IFRSs as issued by the 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. At 31 December 2021, there were no unendorsed standards effective for the financial year ended 31 December 2021 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of the Company for the financial year ended 31 December 2021 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

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

2.2 Standards and Interpretations issued by the IASB

During the year, the Company adopted the following interpretations and amendments to standards which were EU endorsed during 2020 and 2021 and were effective for accounting periods beginning on or after 1 January 2021, unless otherwise indicated; They have no material effect on the financial statements :

- amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.

Adopting these amendments enables the Company to reflect the effects of transitioning from an interbank offered rate (London Inter-Bank Offered Rate – "LIBOR") to an alternative benchmark interest rate (Sterling Overnight Index Average – "SONIA") plus an appropriate credit adjustment spread, without giving rise to accounting impacts that would not provide useful information to users of financial statements. In summary, the only modification made to financial instruments is the change from LIBOR to SONIA plus an appropriate credit adjustment spread and the new basis for calculating cash flows is "economically equivalent" to the previous basis. Under the amendments therefore:

- i) the effective interest rate on floating-rate financial instruments is adjusted;
- ii) the formal designation of hedge relationships is amended and hedge accounting will continue; and
- iii) the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges is deemed to be based on the alternative benchmark rate.

The Company has applied the amendments retrospectively. However, there have no adjustments to either the prior period nor to the components of equity as at 1 January 2021;

- amendments to IFRS 16 Leases: Covid-19- Related Rent Concessions beyond 30 June 2021- effective for annual reporting periods beginning on or after 1 April 2021; and
- amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

2 Basis of Preparation (continued)

2.2 Standards and Interpretations issued by the IASB (continued)

At 31 December 2021, a number of standards and amendments to standards have been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2021. 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 2022 (EU endorsed):

- 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:

- amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates;
- amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies;
- amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- 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.

2.3 Going concern

As part of the ongoing simplification of the Group structure it is anticipated that the Company will be voluntarily liquidated in 2022. The Company therefore is not a going concern. As such, the financial statements have been prepared on a basis other than that of a going concern as required by IAS 1 "Presentation of Financial Statements".

The carrying value of the assets and liabilities held by the Company have been reassessed and recorded at their realisable value.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the potential impact of COVID-19 upon the business described in the Directors' report.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

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 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 financial years.

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

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

3.2 Income tax

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

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

3.3 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 financial 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.

3.4 Dividend income

Dividend income from investments is recognised when the right to receive payment is established.

3.5 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.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.6 Financial instruments

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

Classification and measurement

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

The Company holds the following classes of financial instruments:

Amounts owed by group undertaking

"Amounts owed by group undertaking" 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 loan is sold or written off, or substantially all the risks and rewards of ownership are transferred.

Financial liabilities

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to their purchase or issue. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. The Company derecognises the financial liability when the obligations specified in the contract expire, are discharged or cancelled.

Impairment of financial assets

A 12 month expected credit loss ("ECL") allowance is carried for 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.

Determination of fair value

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

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

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

3.7 Statement of cash flows

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

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.8 Share capital

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

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

3.9 Use of judgements, estimates and assumptions

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

There are no accounting policies that are deemed critical to the Company's results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation.

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

3.10 Preference shares

Preference shares 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.

4 Finance income

	2021 £'000	2020 £'000
Interest receivable from Eversholt Rail Limited	<u>79</u>	<u>474</u>

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

5 Finance expense

	2021 £'000	2020 £'000
Dividend on fixed rate preference shares	<u>(495)</u>	<u>(495)</u>

Finance expense represents expense on financial liabilities carried at amortised cost.

6 Dividends

During the financial year, the Company received dividends of £nil (2020 £nil).

The Company paid dividends of £97,000,000 during the financial year (2020: £94,500,000).

7 Administrative expense

Administrative expense includes the following:

	2021 £'000	2020 £'000
Fees payable paid by Eversholt Rail Limited to the Company's auditor for the audit of the Company's annual financial statements	<u>(10)</u>	<u>(9)</u>

The Company has no employees and hence no staff costs (2020: £nil).

The Directors have been paid by another group undertaking, Eversholt Rail Limited. No specific charge has been made to the Company in this regard, therefore, the Directors' remuneration is £nil (2020: £nil) and all disclosures relating to sections 305 and 306 of Companies Act 2014 are £nil (2020: £nil).

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

8 Income tax charge

Current tax	2021	2020
	£'000	£'000
On current financial year loss	<u>(13)</u>	<u>(88)</u>

The UK corporation tax rate for the year ended 31 December 2021 and 31 December 2020 was 19%.

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

	2021	2020
	£'000	£'000
Loss before tax	<u>(426)</u>	<u>(30)</u>
Taxation at corporation tax rate of 19% (2020: 19%)	81	6
Non-taxable expense	<u>(94)</u>	<u>(94)</u>
Income tax charge	<u>(13)</u>	<u>(88)</u>

9 Investments in subsidiaries

	2021	2020
	£'000	£'000
Cost at 31 December	<u>86,011</u>	<u>86,011</u>

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

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage	
				2021	2020
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	nil
Eversholt Rail Limited*	Ordinary Shares	England***	Management services	100	100
Eversholt Depot Finance Limited*	Ordinary Shares	England***	Leasing	100	100
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, Ireland

*** Registered office: Ground Floor, WeWork 1 Waterhouse Square, 138-142 Holborn, London, EC1N 2ST, United Kingdom.

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

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

10 Amounts owed by group undertaking

	2021 £'000	2020 £'000
Non-current		
Eversholt Rail Limited	<u>91,042</u>	<u>188,554</u>

The intercompany loan to Eversholt Rail Limited is classified as non-current as it is repayable on 4 November 2023. Borrowing entities may prepay and withdraw loans until the repayment date. Interest on the loan was receivable monthly at LIBOR, less margin.

Replacement of LIBOR as an interest rate benchmark

During 2021, the Company replaced LIBOR as the reference interest rate in its intercompany loan, described above. LIBOR has been replaced by SONIA plus an appropriate credit adjustment spread, determined at the date of change. Interest will be paid under the new rate for the first time in early 2022. The change in rate has had no material impact and the replacement rate does not introduce any significant change in risk - therefore the Company's current risk management strategy remains in place.

In preparing the Statement of cash flows, the amounts due from Eversholt Rail Limited have been presented as a "cash flow from investing activities".

11 Trade and other payables

	2021 £'000	2020 £'000
Accrued interest on preference shares	42	42
Accruals	7	5
	<u>49</u>	<u>47</u>

12 Borrowings

	2021 £'000	2020 £'000
Current		
Fixed rate preference shares	<u>49,500</u>	<u>-</u>
Non-current		
Fixed rate preference shares	<u>-</u>	<u>49,500</u>

The fixed rate preference shares, being 49,500,000 fixed rate preference shares of £1 each, are held by Eversholt Investment Limited. Dividends are paid annually at a rate of 1% per annum.

It is presented as a current liability as at 31 December 2021 as it is anticipated that the Company will be voluntarily liquidated in 2022.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

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

31 December 2021

	As at 31 December 2020 £'000	Cash Flows receipts/ (payments) £'000	Non-cash finance income/ (expense) £'000	As at 31 December 2021 £'000
Investing/financing activities attributable to:				
Assets				
Amounts owed by group undertaking Eversholt Rail Limited	<u>188,554</u>	<u>(97,591)</u>	<u>79</u>	<u>91,042</u>
Liabilities				
Fixed rate preference shares	<u>(49,500)</u>	<u>495</u>	<u>(495)</u>	<u>(49,500)</u>

31 December 2020

	As at 31 December 2020 £'000	Cash Flows receipts/ (payments) £'000	Non-cash finance income/ (expense) £'000	As at 31 December 2021 £'000
Investing/financing activities attributable to:				
Assets				
Amounts owed by group undertaking Eversholt Rail Limited	<u>283,451</u>	<u>(95,371)</u>	<u>474</u>	<u>188,554</u>
Liabilities				
Fixed rate preference shares	<u>(49,500)</u>	<u>495</u>	<u>(495)</u>	<u>(49,500)</u>

14 Share capital

	2021 £'000	2020 £'000
Authorised		
Ordinary shares of £1 each	<u>125,000</u>	<u>125,000</u>
	2021 No. Shares	2020 No. Shares
Issued, allotted, called up and fully paid		
Ordinary shares of £1 each	<u>500</u>	<u>500</u>

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

Additionally, the Company has authorised, issued and fully paid 49,500,000 fixed rate preference shares of £1 each classed as borrowings.

15 Fair value of financial assets and liabilities

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2021 and 31 December 2020.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

16 Risk management

The Company has exposure to the following types of risk arising from its use of financial instruments: capital risk, credit risk, liquidity risk and market risk. In addition, the Company is exposed to the risk of diminution in the value of the investment in its subsidiaries. Market risk includes foreign exchange risk and interest rate risk. There are also risks associated with the COVID-19 pandemic, details of which are considered in note 2.3 "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 3.9.

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

16.1 Capital risk management

The Board actively monitors the capital structure of the Company to ensure that it is able to continue as a going concern and can generate attractive and predictable returns for shareholders and benefits for other stakeholders. Consideration is given to the availability, cost and risks associated with each class of capital.

The capital structure of the Company consists principally of borrowings and equity from its immediate parent.

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

16.2 Credit risk management

Credit risk is the risk of financial loss if a counterparty fails to meet its obligations under a contract. The Company's principal credit exposure arises from the ability of its counterparties to service their obligations under the lending arrangements.

The Company monitors the exposure to Eversholt Rail Limited on a regular basis. This includes considering the borrower's ability to service its obligations to the Company and other creditors, having regards to past, current and future circumstances.

The loan is performing in accordance with the terms of the arrangement i.e. all payments to date as well as those expected in the future, have been made/are expected to be made in accordance with the underlying contractual terms. No part of the financial asset is credit impaired or overdue or in default. For these purposes, the Company defines "default" as where the obligor has failed to meet its obligations under the contract and "credit impaired" where there is objective evidence as to a credit event for the obligor. The definition has been applied historically by the Company and is regarded as appropriate having regard to the nature of the Company's exposure and past experience.

The carrying value of the loan receivable represents the Company's maximum credit exposure to the borrower.

In light of the above, the Company has determined that no ECL allowance is required in relation to its loan receivable. This reflects the Company's assessment of the borrower's risk and exposure, together with nature of recourse to which the lender and borrower would have access in the event of a potential issue.

16.3 Liquidity risk management

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

The Company monitors its cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. Cash is managed on a consolidated basis across the Group which enables the Company to borrow funds from another group undertaking to meet any shortfall. Conversely, the Company lends any surplus funds to other group undertakings. Liquidity is further under-pinned by the ability of certain group undertakings to borrow under a £600,000,000 revolving credit facility which matures on 4 November 2023 and lend proceeds to the Company.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

16 Risk management (continued)**16.3 Liquidity risk management (continued)**

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

	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 2021						
Financial Assets						
Amortised cost						
Amounts owed by group undertakings	<u>91,042</u>	<u>91,042</u>	-	-	<u>91,042</u>	-
Financial liabilities						
Amortised cost						
Trade and other payables	49	49	-	49	-	-
Preference shares	<u>49,500</u>	<u>49,500</u>	-	-	-	<u>49,500</u>
	<u>49,549</u>	<u>49,549</u>	-	<u>49</u>	-	<u>49,500</u>
Total financial instruments	<u>41,493</u>	<u>41,493</u>	-	<u>(49)</u>	<u>91,042</u>	<u>(49,500)</u>
31 December 2020						
Financial Assets						
Amortised cost						
Amounts owed by group undertakings	<u>188,554</u>	<u>188,554</u>	-	-	<u>188,554</u>	-
Financial liabilities						
Amortised cost						
Trade and other payables	47	47	-	47	-	-
Preference shares	<u>49,500</u>	<u>49,500</u>	-	-	-	<u>49,500</u>
	<u>49,547</u>	<u>49,547</u>	-	<u>47</u>	-	<u>49,500</u>
Total financial instruments	<u>139,007</u>	<u>139,007</u>	-	<u>(47)</u>	<u>188,554</u>	<u>(49,500)</u>

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

16.4 Market risk management

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

The Company has exposure to fluctuations in interest rates. The exposure is managed at a group level through the use of interest rate swaps. The net cost or benefit of the use of swaps is taken into account in determining the interest charged on loans from other group entities.

	2021 £'000	2020 £'000
Fixed rate instruments		
Financial liabilities	<u>(49,500)</u>	<u>(49,500)</u>
Variable rate instruments		
Financial assets	<u>91,042</u>	<u>188,554</u>

Interest rate sensitivity analysis

A 5 basis points increase in LIBOR would have resulted in an increase in intercompany interest income of £75,000 (2020: £264,000). This represents a reasonable approximation of possible change.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

16 Risk management (continued)

16.5 Investment in Subsidiaries

The Company monitors the performance of its subsidiaries on an ongoing basis having regards to the environment in which they operate and the risk to which they are exposed.

17 Related-party transactions

17.1 Identity of related parties

The Company has a related party relationship with its directors (refer page 3) and with its fellow group undertakings of the Eversholt UK Rails Group, namely:

- Eversholt UK Rails Limited
- Eversholt UK Rails (Holding) Limited
- European Rail Finance Limited
- Eversholt Investment Limited
- Eversholt Rail Leasing Limited
- Eversholt Finance Holdings Limited
- Eversholt Rail Holdings (UK) Limited (dissolved on 4 February 2020)
- Eversholt Funding plc
- Eversholt Rail Limited
- Eversholt Depot Finance Limited
- European Rail Finance (2) Limited

The Company has been informed by the former ultimate parent and controlling party, CK Hutchison Holdings Limited ("CKHH"), incorporated in the Cayman Islands, that by virtue of contractual arrangements entered into with other parties, with effect from 30 December 2019, it ceased to have a controlling interest in the Company and, as required by the applicable accounting standards, it has ceased accounting for the Company as a subsidiary from that date.

The results of the Company before 30 December 2019 are consolidated in the consolidated financial statements of CKHH. The Directors of the Company consider CKHH was the ultimate parent and controlling party prior to 30 December 2019.

In light of the above, the Directors of the Company consider the ultimate parent and controlling party from 30 December 2019 to be UK Rails S.A.R.L. incorporated in Luxembourg.

The parent undertaking of the largest 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 parent undertaking of the smallest group of undertakings for which group financial statements are drawn up and which the Company is a member of, is Eversholt UK Rails (Holding) Limited.

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

7, rue du Marché-aux-Herbes
L-1728 Luxembourg

Copies of the consolidated financial statements of Eversholt UK Rails (Holding) Limited may be obtained from the following registered address:

Ground Floor
WeWork 1 Waterhouse Square
138-142 Holborn
London
EC1N 2ST

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

17 Related-party transactions (continued)

17.2 Transactions with related parties

The Company has loan accounts with fellow group undertakings more fully described in note 10. Interest on these accounts is more fully described in note 4 and 5.

The fixed rate preference dividend payable to Eversholt Investment Limited is disclosed in note 5, related borrowings are shown in note 12.

18 Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2021 (2020: nil).

19 Subsequent events

There are no subsequent events requiring disclosure in the financial statements, other than the proposed liquidation of the Company in 2022.