Eversholt Depot Finance Limited

Annual report and financial statements

for the year ended 31 December 2021

Registered No: 05229765

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

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for the year ended 31 December 2021

Business review

Eversholt Depot Finance Limited (the "Company"), earns both operating and finance lease income from leasing rolling stock depots.

The Company forms part of the Eversholt UK Rails Group (the "Group") more fully described in note 21. 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.

In the year the Company generated a profit of £300,000 (2020: £680,000). The reduction in profit is attributable to an increase in deferred tax caused by the announced increase in corporation tax rate. As at 31 December 2021 the Company had net assets of £10,939,000 (2020: £10,639,000).

Another group undertaking, Eversholt Rail Limited, provides asset management and administrative services to the Company, charging an annual management fee.

The business is funded principally by borrowing from another group undertaking and equity from its immediate parent. The Company has no employees.

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 18 of the financial statements.

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 lease exposures and 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.

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 18. 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 11.

The Directors consider cash flow generated by operating activities to be the key performance indicator for the Company. Cash flow generated by operating activities for the year was £3,778,000 (2020: £3,777,000).

Strategic report (continued)
for the year ended 31 December 2021

Business environment

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

Section 172(1) statement

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

As a wholly owned subsidiary with no employees, the Directors do not consider the factors listed in section 172(1)(b) (interests' of the company's employees) or section 172(1)(f) (need to act fairly between the members of the company) are relevant to the proper discharge of their duty under section 172.

The business of the Company is the leasing of two rolling stock depots to train operating companies (“TOCs”) in the UK under finance and operating leases. There are a small number of transactions with external parties.

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

The Company operates in a sector characterised by long-term relationships between stakeholders, driven by a relatively small number of market participants. Maintaining a reputation for high standards of business conduct is vital and the Company expects all members of the supply chain to always act with integrity, acting openly, honestly and ethically, irrespective of the volume of transactions. The Company has zero tolerance to fraud and consistently maintains effective control, oversight and scrutiny processes, executed with independence and impartiality. Integrity is underpinned with policies in relation to bribery and corruption, data protection, equality, diversity and inclusion, modern slavery, fraud and whistleblowing, each of which is reinforced through appropriate training.

In addition to the core values, compliance with these requirements together with the Company’s corporate responsibility commitments, provide the framework within which the Company operates both internally and in the marketplace. Suppliers and contractors are also expected to behave in a consistent manner.

The Company leases depots to TOCs who operate rail franchises for periods that are typically between seven and ten years. Accordingly, consideration of long-term consequences are an inherent part of the Company's decision making processes. As a privately-owned company ultimately held by an infrastructure investor, the Board considers that the interests of the Company and its ultimate owners are aligned in seeking sustainable value creation over the longer term through the Company's operations, promoting long-term strategic decision-making.

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

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.

Given the business of the Company, the Board believes the following stakeholder groups are relevant to the proper discharge of the duties of the Directors of the Company under section 172(1):

- TOCs - the Company's customers;
- the Group's external lenders; and
- the Group's owners.

Via the Group, the Company maintains regular dialogue with each of these groups. As regards the TOCs and their parent groups, this is principally through a dedicated Client Services Director.

Strategic report (continued)
for the year ended 31 December 2021

Section 172(1) statement (continued)

Impact on the environment and the community

The Company is committed to reducing the environmental impact of its depots, working in conjunction with the TOCs as appropriate.

The Company strives to make a positive impact in the community, principally through Group activities. Since 2013, the Group has contributed through fundraising and donations to charities.

Its 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. Previous charity partners have been Jubilee Sailing Trust and Noah's Ark.

The Group also provides support to several industry organisations including National Rail Museum, Campaign for Better Transport and Community Rail Network.

Approved by the Board and signed on its behalf by:

M B Kenny
Director

Registered Office:
Ground Floor
WeWork 1 Waterhouse Square
138-142 Holborn
London
EC1N 2ST
United Kingdom

28 February 2022

Directors' report
for the year ended 31 December 2021

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

Directors

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

M B Kenny

A J Wesson

D Spence

P M Sutherland
L R Warsop

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. The Directors have no interests in the share capital of the Company.

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. Meeting energy requirements of the Company's depot assets is the primary responsibility of the Company's customers, being train operating companies. The Company does not therefore consume any fuel/electricity/gas in relation to those assets;
- 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 and financial statements for the year ended 31 December 2021.

Risk management

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

Future developments

In Summer 2021, the UK Government announced that a new organisation, Great British Railways ("GBR") will be created through the amalgamation of Network Rail, some elements of the DfT and elements of other cross industry organisations such as the Rail Delivery Group. Whilst precise plans have not yet been set out for the roll-out of, and transition to, GBR, it is expected that GBR will go live at some time during 2024 as described in the Strategic report – Business environment of the Annual report and financial statements of Eversholt UK Rails (Holding) Limited.

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.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2021 (2020: £nil).

Directors' report (continued)
for the year ended 31 December 2021

Going concern basis

The Directors have considered the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, including the potential impact of COVID-19.

As well as its own resources, the Company is able to rely on financial support and access cash generated from other members of the Security Group, to the extent necessary, under the terms of the financing arrangements with lenders. In relation to the Security Group, the Directors have considered: its forecasts and projections; current financial resources (including cash of £225,064,000 (2020: £81,534,000) and undrawn committed borrowing facilities of £600,000,000 as at 31 December 2021 (2020: £600,000,000 undrawn)); 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 Security Group breached any of its borrowing covenants.

The Directors are satisfied that under all reasonable sensitivities that the Company 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.

Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

The potential impact of COVID-19 upon the business is described above in the Strategic report 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, the Auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Approved by the Board and signed on its behalf by:

M B Kenny
Director

Registered Office:
Ground Floor
WeWork 1 Waterhouse Square
138-142 Holborn
London
EC1N 2ST
United Kingdom

28 February 2022

Statement of Directors’ responsibilities
for the year ended 31 December 2021

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB and endorsed for use in the UK by the UK Endorsement Board, referred to as “'UK-adopted IFRS”. Refer to note 2 for more details. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Company’s annual financial statements were approved by the Board of Directors on 28 February 2022 and signed on their behalf by:

M B Kenny

Director

Registered Office:
Ground Floor
WeWork 1 Waterhouse Square
138-142 Holborn
London
EC1N 2ST
United Kingdom

Independent Auditor's report to the Members of Eversholt Depot Finance Limited

for the year ended 31 December 2021

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Eversholt Depot Finance Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 Eversholt Depot Finance Limited (continued)

for the year ended 31 December 2021

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included International Financial Reporting Standards, UK Companies Act, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Independent Auditor's report to the Members of Eversholt Depot Finance Limited (continued)

for the year ended 31 December 2021

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suzanne Gallagher

Suzanne Gallagher FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading
United Kingdom

28 February 2022

Income statement
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue			
Operating lease income	***20***	**2,489**	2,489
Finance lease income	***11***	**443**	528
Total revenue		**2,932**	3,017
Cost of sales	***4***	**(1,159)**	(1,158)
Gross profit		**1,773**	1,859
Finance expense	***5***	**(144)**	(292)
Administrative expense	**6**	**(279)**	(246)
Profit before tax		**1,350**	1,321
Income tax charge	***8***	**(1,050)**	(641)
Profit for the year		**300**	680

There were no discontinued or discontinuing operations during the year.

The notes on pages 15 to 30 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2021

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

Statement of financial position

as at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	*9*	**13,470**	14,433
Right-of-use assets	*10*	**1,460**	1,656
Finance lease receivables	*11*	**2,164**	3,335
		17,094	19,424
Current assets			
Finance lease receivables	*11*	**1,171**	1,083
		1,171	1,083
Total assets		**18,265**	20,507
Liabilities and equity			
Current liabilities			
Trade and other payables	*12*	**486**	444
Lease liabilities	*15*	**231**	226
Current tax		**636**	614
		1,353	1,284
Non-current liabilities			
Borrowings	*13*	**535**	3,317
Lease liabilities	*15*	**1,700**	1,943
Deferred tax	*16*	**3,738**	3,324
		5,973	8,584
Total liabilities		**7,326**	9,868
Equity			
Share capital	*17*	**5,000**	5,000
Retained earnings		**5,939**	5,639
Total equity		**10,939**	10,639
Total equity and liabilities		**18,265**	20,507

The notes on pages 15 to 30 form an integral part of these financial statements.

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

A J Wesson
Director

Company registration number 05229765

Statement of cash flows
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flow from operating activities			
Profit before tax		**1,350**	1,321
Adjustments for:			
- Depreciation	*4*	**1,159**	1,158
- Finance expense	*5*	**144**	292
Operating cash flow before changes in working capital		**2,653**	2,771
Decrease in finance lease receivables		**1,083**	998
Increase in trade and other payables		**42**	8
Cash flow generated by operating activities		**3,778**	3,777
Payment in respect of group relief		**(614)**	(581)
Net cash generated by operating activities		**3,164**	3,196
Cash flow from financing activities			
Movement in intercompany loan with Eversholt Rail Limited	*14*	**(2,884)**	(2,927)
Repayment of lease liability	*15*	**(280)**	(269)
Net cash utilised in financing activities		**(3,164)**	(3,196)
Net movement in cash and cash equivalents		**-**	-
Cash and cash equivalents at the beginning of the year		**-**	-
Cash and cash equivalents at the end of the year		**-**	-

Statement of changes in equity
for the year ended 31 December 2021

	Note	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020		5,000	4,959	9,959
Total comprehensive income		-	680	680
Balance at 31 December 2020		**5,000**	**5,639**	**10,639**
Total comprehensive income		**-**	**300**	**300**
Balance at 31 December 2021		**5,000**	**5,939**	**10,939**

Notes to the annual financial statements

for the year ended 31 December 2021

1 General Information

Eversholt Depot Finance Limited is a private company incorporated in England and Wales and is limited by shares (see note 17). The registered office of the Company is Ground Floor, WeWork 1 Waterhouse Square, 138-142 Holborn, London, EC1N 2ST, United Kingdom.

2 Basis of Preparation

These financial statements are presented in £'000. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.1 Compliance with IFRSs

The financial statements of the Company have been prepared on the historical cost basis. These financial statements have been prepared in accordance with IFRSs issued by the IASB or IFRIC and endorsed for use in the UK by the UK Endorsement Board, referred to as "'UK-adopted IFRS", in conformity with the requirements of the Companies Act 2006.

The concept of "UK adoption" has been introduced as a consequence of the UK's withdrawal from the European Union ("EU") and the end of the corresponding transition arrangements on 31 December 2021. There is currently no difference between IFRSs endorsed by the EU and IFRSs adopted by the UK in terms of their application to the Company

UK endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been adopted by the UK. At 31 December 2021, there were no unendorsed standards effective for the year ended 31 December 2021 affecting these financial statements, and there was no difference between IFRSs adopted by the UK and IFRSs issued by the IASB in terms of their application to the Company.

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 amendments to standards which were UK endorsed 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:

- Interest Rate Benchmark Reform— Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

  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;

- COVID-19-related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) - effective for annual reporting periods beginning on or after 1 April 2021; and

- Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4).

Notes to the annual financial statements (continued)
for the 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

UK 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 (all UK approved):

- Annual Improvements to IFRS 2018 - 2020;
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to the Conceptual Framework (Amendments to IFRS 3).

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

- Accounting Policies and Accounting Estimates (Amendments to IAS 8);
- Disclosure Initiative - Accounting Policies (Amendments to IAS 1);
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) Deferral of Effective Date Amendment; and
- IFRS 17 Insurance Contracts; including Amendments to IFRS 17.

Effective for accounting periods beginning on or after a future date to be determined:

- Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4).

2.3 Going concern

The Directors have considered the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, including the potential impact of COVID-19.

As well as its own resources, the Company is able to rely on financial support and access cash generated from other members of the Security Group, to the extent necessary, under the terms of the financing arrangements with lenders. In relation to the Security Group, the Directors have considered: its forecasts and projections; current financial resources (including cash of £225,064,000 (2020: £81,534,000) and undrawn committed borrowing facilities of £600,000,000 as at 31 December 2021 (2020: £600,000,000 undrawn)); 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 Security Group breached any of its borrowing covenants.

The Directors are satisfied that under all reasonable sensitivities that the Company 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.

Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

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

Notes to the annual financial statements (continued)
for the 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 Accounting for lease transactions

The Company as lessee

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

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

Lease payments comprise of 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; or
- 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; or
- 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 two leases terms (17 years, 9 months and 5 years, 9 months), it is subsequently measured at cost less accumulated depreciation and impairment losses.

The Company 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 Company enters into operating lease arrangements as lessor with respect to depot assets which are depreciated straight line over their useful economic lives to their residual value and impaired appropriately to the extent that such assets' carrying value exceed their recoverable value (see policy in relation to property, plant and equipment).

If the Company 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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.1 Accounting for lease transactions (continued)

The Company as lessor (continued)

Amounts due from lessees under a finance lease are recognised at an amount equal to the Company'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 Company'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 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.

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

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

3.3 Income tax

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

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

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

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.4 Property, plant and equipment

In the normal course of business, property, plant and equipment 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 lives range from 23 to 35 years. Useful economic lives and carrying values are reviewed at least annually.

The depreciation charge is included in the Income statement as detailed in note 4.

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

At each reporting date, the Company reviews the carrying value of the depot assets to determine whether there is any indication that the assets have suffered an impairment loss. In addition, the Company will review the various contractual break options which limit the Company's residual value exposure. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

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

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

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

3.5 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:

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 initially measured at fair value less any transaction costs that are directly attributable to the 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Impairment of financial assets

Allowance for lifetime expected credit losses ("ECL") is recognised for Trade and other receivables which result from transactions within the scope of IFRS 15 and which do not contain a significant financing component, as well as finance lease receivables. Finance lease receivables are outside of scope of IFRS 9 for classification and measurement.

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.

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.

3.6 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 Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

Notes to the annual financial statements (continued)
for the year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.7 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.

3.8 Use of judgements, estimates and assumptions

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

There are no accounting policies that are deemed critical to the Company's results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation. There are no sources of estimation uncertainty in the reporting year that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

4 Cost of sales

	2021 £'000	2020 £'000
Depreciation	**(1,159)**	(1,158)

5 Finance expense

	2021 £'000	2020 £'000
Interest payable to Eversholt Rail Limited	**(102)**	(245)
Lease liability interest	**(42)**	(47)
	(144)	(292)

6 Administrative expense

Administrative expense includes:

	2021 £'000	2020 £'000
Management fees paid	**(251)**	(219)
Fees payable by Eversholt Rail Limited to the Company's auditor for the audit of the Company's annual financial statements	**(28)**	(27)

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

7 Directors' emoluments

The Directors have been paid by another group undertaking, Eversholt Rail Limited. No specific charge has been made to the Company in this regard.

Notes to the annual financial statements (continued)
for the year ended 31 December 2021

8 Income tax charge

	Note	2021 £'000	2020 £'000
Current tax			
UK corporation tax on current year profit		**(636)**	(614)
		(636)	(614)
Deferred tax			
Origination and reversal of temporary differences –			
Current year	*16*	**366**	351
Change in tax rate	*16*	**(780)**	(378)
Total deferred tax		**(414)**	(27)
Total income tax charge		**(1,050)**	(641)

Corporation tax has been calculated by reference to the current tax rate of 19%.

Deferred tax is calculated by reference to the tax rates that apply when the corresponding deferred tax asset is realised or deferred tax liability settled. The applicable rates are those rates that have been enacted or substantively enacted by 31 December 2021 and are as follows:

For periods:	%
Prior to 1 April 2023	19
Post 31 March 2023	25

This has led to the tax charge attributable to "change in tax rate" shown in the above analysis.

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

	2021 £'000	2020 £'000
Profit before tax	**1,350**	1,321
Taxation at corporation tax rate of 19% (2020: 19%)	**(257)**	(251)
Change in tax rate	**(780)**	(378)
Depreciation on fixed assets ineligible for tax allowances	**(13)**	(12)
Income tax charge	**(1,050)**	(641)

9 Property, plant and equipment

	Rail Depot £'000
Cost	
Balance at 1 January 2020	25,145
Additions	-
Balance at 31 December 2020	**25,145**
Additions	**-**
Balance at 31 December 2021	**25,145**
Depreciation	
Balance at 1 January 2020	9,749
Charge for the year	963
Balance at 31 December 2020	**10,712**
Charge for the year	**963**
Balance at 31 December 2021	**11,675**
Carrying value at 31 December 2021	**13,470**
Carrying value at 31 December 2020	14,433

Notes to the annual financial statements (continued)
for the year ended 31 December 2021

10 Right-of-use of assets

	Land £'000
As at 1 January 2020	1,851
Additions	-
Depreciation charge	(195)
As at 31 December 2020	**1,656**
Additions	-
Depreciation charge	**(196)**
As at 31 December 2021	**1,460**

11 Finance lease receivables

	2021 £'000	2020 £'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	**2,302**	3,683
Gross investment in finance leases	**3,683**	5,064
Unearned finance income	**(348)**	(646)
Net investment in finance leases less provisions	**3,335**	4,418
Amortisation of finance lease receivables:		
Amounts falling due:		
No later than one year	**1,171**	1,083
Later than one year and no later than five years	**2,164**	3,335
Present value of minimum lease receivables	**3,335**	4,418
Aggregate finance lease income receivable in the year	**443**	528

The Company has entered into a finance leasing arrangement for one of the depots. This lease is due to expire in 3 years' time. Finance lease receivable balances are secured over the depot.

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

12 Trade and other payables

	2021 £'000	2020 £'000
Rentals received in advance	**375**	394
Accruals	**37**	13
Other payables	**74**	37
	486	444

13 Borrowings

	2021 £'000	2020 £'000
Eversholt Rail Limited	**535**	3,317

The intercompany loan with Eversholt Rail Limited is classified as non-current as it is repayable on 4 November 2023. Borrowing entities may prepay and redraw loans until the repayment date. Interest on the loan was payable monthly at a floating rate, reflecting LIBOR plus margin (2020: LIBOR, plus margin), which takes into account the rate of the Security Group's senior debt, plus margin (2020: Group's senior debt, plus margin).

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

13 Borrowings (continued)

All assets have been pledged to secure borrowings of the Security Group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted in the use of disposal proceeds. The assets are secured by a fixed and floating charge held by the financial institutions that have lent to Eversholt Funding plc.

13.1 Replacement of LIBOR as an interest rate benchmark

During the year, the Company replaced LIBOR as the reference interest rate in its borrowings described in note 13. Interest will be paid under the new rate for the first time in early 2022. LIBOR has been replaced by SONIA plus an appropriate credit adjustment spread, determined at the date of change. 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.

14 Reconciliation of liabilities arising from financing activities

31 December 2021	**As at 31 December 2020 £'000**	**Non-cash finance expense £'000**	**Cash Flows payments £'000**	**As at 31 December 2021 £'000**
Financing activities attributable to:				
Liabilities				
Eversholt Rail Limited	**3,317**	**102**	**(2,884)**	**535**

31 December 2020	**As at 31 December 2019 £'000**	**Non-cash finance expense £'000**	**Cash Flows payments £'000**	**As at 31 December 2020 £'000**
Financing activities attributable to:				
Liabilities				
Eversholt Rail Limited	5,999	245	(2,927)	3,317

Notes to the annual financial statements (continued)
for the year ended 31 December 2021

15 Lease liabilities

	Land £'000
As at 1 January 2020	2,391
Additions	-
Interest charge	47
Payments	(269)
As at 31 December 2020	**2,169**
Additions	**-**
Interest charge	**42**
Payments	**(280)**
As at 31 December 2021	**1,931**

Total lease liabilities can be analysed as follows:

	2021 £'000	2020 £'000
Current	**231**	226
Non-Current	**1,700**	1,943
	1,931	2,169

Maturity of lease liabilities

The maturity profile of the Group's undiscounted lease liabilities at 31 December 2021 was as follows:

	2021 £'000	2020 £'000
Within one year	**268**	268
In more than one year but not more than two years	**268**	268
In more than two years but not more than five years	**466**	636
In more than five years	**1,171**	1,289
Non-Current	**1,905**	2,193

16 Deferred tax liability

Deferred tax arises on timing differences in respect of capital allowances and IFRS 16 implementation.

	Capital allowances	IFRS 16 impact £'000	Total £'000
Balance at 1 January 2020	3,383	(86)	3,297
Credit to Income statement	(358)	7	(351)
Effect of change in tax rate			
- Income statement	388	(10)	378
Balance at 31 December 2020	**3,413**	**(89)**	**3,324**
Credit to Income statement	**(373)**	**7**	**(366)**
Effect of change in tax rate			
- Income statement	**805**	**(25)**	**780**
Balance at 31 December 2021	**3,845**	**(107)**	**3,738**

Deferred tax is calculated by reference to the tax rates that apply when the corresponding deferred tax asset is realised or deferred tax liability settled. The applicable rates are those rates that have been enacted or substantively enacted by 31 December 2021 and are as follows:

For periods:	**%**
Prior to 1 April 2023	19
Post 31 March 2023	25

This has led to the tax charge attributable to "effect of change in tax rate" shown in the above analysis.

Notes to the annual financial statements (continued)
for the year ended 31 December 2021

17 Share capital

	2021 £'000	2020 £'000
Authorised, allotted, called up and fully paid		
5,000,100 Ordinary shares of £1 each	**5,000**	5,000

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

18 Risk management

The Company is exposed to residual value risk and credit risk from its leasing arrangements. The Company also has exposure to the following types of risk arising from its use of financial instruments: capital risk, market risk, and liquidity risk. Market risk includes foreign exchange risk and interest rate risk. In addition, there are 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 3.8.

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.

Residual value risk

One of the key drivers of the Company'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 recoverable 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 Company regularly monitors the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let the depot at the end of its current lease terms. The leasing arrangements in place for the depot also have various contractual provisions which limit the Company's residual value exposure. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

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

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 leasing arrangements. It arises principally from lease receivables.

The Company monitors the exposure to counterparties in relation to finance lease receivables. This includes considering the counterparty's ability to service its obligations to the Company and other creditors, having regards to past, current and future circumstances.

As part of the Company's processes for credit risk management and assessment of ECL, as well as assessment as to whether there has been a significant increase in 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 reports 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 Company's internal information;
- The nature of the arrangements with the counterparty and whether there is related collateral/security which can be applied;
- The existence of any parties to which the Company might have recourse in the event of a counterparty default, for example, where a counterparty's activities and related obligations (wholly or partly) might be assumed by a successor; and

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

18 Risk management (continued)

Credit risk management (continued)

- The duration of the exposure under review.

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

The carrying value of the financial assets represents the Company's maximum credit exposure to the borrower.

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

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 from another group undertaking and equity from its immediate parent.

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

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. This exposure is managed at a group level through the use of interest rate swaps. The net cost or benefit derived from the use of swaps is taken into account in determining the interest on the intercompany loan.

Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase in intercompany loan interest expense of £500 (2020: £1,000). The sensitivity analysis is applied to the borrowing rate and performed on the monthly balance of the relevant financial instrument and represents a reasonable approximation of possible change.

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 Security 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.

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2021

18 Risk management (continued)

Liquidity risk management (continued)

Undiscounted cash flows receivable from financial assets and payable to meet financial liabilities are analysed below by their contractual due date:

31 December 2021	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
Financial assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amortised cost						
Finance lease receivables	**3,335**	**3,683**	**-**	**1,381**	**2,302**	**-**
	3,335	**3,683**	**-**	**1,381**	**2,302**	**-**
Financial liabilities						
Amortised cost						
Trade and other payables	**486**	**486**	**-**	**486**	**-**	**-**
Borrowings	**535**	**535**	**-**	**-**	**535**	**-**
	1,021	**1,021**	**-**	**486**	**535**	**-**
Total financial instruments	**2,314**	**2,662**	**-**	**895**	**1,767**	**-**

31 December 2020	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
Financial assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amortised cost						
Finance lease receivables	4,418	5,064	-	1,381	3,683	-
	4,418	5,064	-	1,381	3,683	-
Financial liabilities						
Amortised cost						
Trade and other payables	444	444	-	444	-	-
Borrowings	3,317	3,317	-	-	3,317	-
	3,761	3,761	-	444	3,317	-
Total financial instruments	657	1,303	-	937	366	-

19 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 year ended 31 December 2021

20 Operating lease arrangements

The Company as lessor:

The Company leases a depot under an operating lease. At the reporting date, the outstanding commitments for future minimum lease receipts under this lease are as follows:

	Group	
	2021	**2020**
	£'000	**£'000**
Within one year	**2,489**	2,489
1-2 years	**2,489**	2,489
2-3 years	**1,898**	2,489
3-4 years	**123**	1,701
4-5 years	**123**	124
Over 5 years	**1,201**	1,293
	8,323	10,585
Aggregate operating lease rentals receivable in the year	**2,489**	2,489

The Company as lessee:

The Company subleased certain right-of-use assets in relation to land and has recognised income of £145,000 during the year (2020: £145,000). This is included on the aggregate operating lease rentals shown above.

21 Related-party transactions

21.1 Identity of related parties

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

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2021

21 Related-party transactions (continued)

21.1 Identity of related parties (continued)

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

21.2 Transactions with related parties

The Company has loans with related parties, described in note 13. Interest on these loans is described in note 5.

The Company paid management fees of £251,000 to Eversholt Rail Limited (2020: £219,000) – see note 6.

22 Contingent liabilities

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

23 Subsequent events

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