Eversholt Funding plc

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

Registered No: 07329930

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

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Strategic report
for the year ended 31 December 2021

Business review

Eversholt Funding plc (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 the Company. The Security Group comprises the Group excluding Eversholt UK Rails Limited.

The Company was established for the sole purpose of raising debt finance for the Security Group.

In the year the Company generated a profit of £18,486,000 (2020: £1,961,000 loss). As at 31 December 2021 the Company had net liabilities of £158,004,000 (2020: £189,097,000). As described in note 2.3, the Directors are satisfied that the Company, through the support of the Group, has the resources to continue in business for the foreseeable future.

The Company has no employees.

Risk management

The Company is subject to the risk management objectives and policies of the Group. An analysis of the exposure to such risks is set out in note 18 of the financial statements.

The Company’s future viability and risk management are ultimately dependent on the performance of the Group and its ability to generate cash flows from its rolling stock and other rail assets. The principal risks and uncertainties of the Group are disclosed in the accounts of Eversholt UK Rails Limited.

The Company also has exposure to financial risks, including market, capital, liquidity and credit risk. Market risk arises from refinancing risk and exposure to interest rate fluctuations on the value of its cash flows. Refinancing risk is risk that the Company will not be able to refinance its debt obligations as they fall due and is managed by established procedures for monitoring concentration of maturities, diversification of lenders and early negotiation of financing arrangements. The effect of interest rates movements on the Company’s cash flow is managed by means of interest rate swaps which have the effect of fixing the rate of interest payable on floating rate debt and forecast future debt.

Capital risk arises from the ability of the Company to continue as a going concern and generate attractive and predictable returns for shareholders and benefits for other stakeholders. The Company’s Board of Directors actively monitor the effect of change on the capital structure of the Company.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and is managed via the close monitoring of day-to-day cash flow forecasts and requirements.

Credit risk arises from placing cash deposits, arranging committed undrawn borrowings and entering into derivative contracts with third parties. Credit risk is managed in line with established procedures which consider credit quality of counterparties and concentration of risk.

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

COVID-19 (continued)

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 18.

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 Annual report and financial statements of Eversholt UK Rails Limited.

Business environment

The Directors monitor the business environment in which the Company operates from a group perspective and details of relevant matters, including changes in the UK rail industry and climate change, are disclosed in the financial statements of Eversholt UK Rails Limited (the parent company of the Group).

As regards the withdrawal of the United Kingdom ("UK") from the European Union ("EU"), the new UK-EU Trade and Co-operation Agreement signed in December 2020 has ensured the continued tariff-free and quota-free movement of physical goods between the UK and the EU. Notwithstanding the requirement for increased customs checks, the risk to the Company of disruption or increased cost to the supply chain, including potential impacts upon capital markets as a result of new arrangements is not considered material.

Section 172(1) statement

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

The Company was formed for the sole purpose of raising debt finance for the Security Group.

The Company is a wholly owned subsidiary and does not have any employees. Accordingly, the Directors do not consider the factors listed in section 172(1)(b) (interests' of the Company's employees), section 172(1)(d) (the impact of the Company's operations on the community and the environment) or section 172(1)(f) (need to fact fairly between the members of the Company) are relevant to the proper discharge of their duty under section 172.

Each of these factors are considered in relation to the Group's broader operations as explained in the section 172(1) statement within the Annual report and financial statements of Eversholt UK Rails Limited for the year ended 31 December 2021.

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

Section 172(1) statement (continued)

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

The Company operates in a sector characterised by long-term relationships between stakeholders, driven by a relatively small number of market participants.

The Group provides rolling stock and rolling stock related services to train and freight operating companies who operate rail franchises for periods that have typically been between seven and ten years. In addition, the financial instruments issued by the Company typically have long maturities. Accordingly, consideration of long-term consequences are an inherent part of the Company's decision making processes. As a publicly-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 funding operations, promoting long-term strategic decision-making.

During 2021, the Board has re-affirmed its treasury policy, as well as ensuring that its funding and hedging strategies meet the Group's objectives.

Identification of, and engagement with, stakeholder groups

The Company recognises the importance of maintaining strong relationships with its stakeholders in order to create sustainable long-term value, and the Board encourages active dialogue and transparency with all its stakeholder groups.

The Group has identified the main stakeholder groups which are relevant to the proper discharge of the duty of the Directors of relevant group companies under section 172(1) to promote the success of their company. These are:

- train operating companies and freight operating companies – the Group's customers;
- industry regulators and rail services sponsors (principally the Office of Rail and Road, the Department for Transport (“DfT”), Transport Scotland, Transport for Wales and Transport for London (in their role providing funding and strategic direction for major rail projects), and other public bodies involved in the UK rail industry;
- the Group's suppliers – train manufacturing companies and other suppliers who supply and maintain rolling stock;
- the Group's external lenders;
- the Group's employees; and
- the Group's owners.

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

- the Group's external lenders; and
- the Group's owners.

Details of these groups, and the main methods that the Directors have used to engage with those stakeholders during the course of the year, is set out in the corporate governance statement within the Annual report and financial statements of Eversholt UK Rails Limited or the year ended 31 December 2021.

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

Approved by the Board and signed on its behalf:

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
LDC Securitisation Director No. 3 Limited
D Spence
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.

Risk management

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

Annual report on internal control over financial reporting

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting and preparation of financial statements includes policies and procedures to ensure that:

1. records are maintained that accurately and completely record transactions and allow preparation of financial statements in accordance with International Financial Reporting Standard ("IFRS"); and
2. financial statements are complete and prepared in compliance with IFRS and relevant legal requirements.

There have been no changes in the Company's internal control over financial reporting that occurred during the year ended 31 December 2021 or in the previous year, that have materially affected or are reasonably likely to have materially affected the Company's internal control over financial reporting.

Audit Committee

Having regard to the requirements of the UK Listing Authority's Disclosure and Transparency Requirements, 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. Activities that would have been undertaken by such a committee, as set out below, fall in the scope of the Audit and Risk Committee of Eversholt UK Rails Limited, an intermediate parent undertaking. Activities include:

(1) monitoring the financial reporting process;

(2) monitoring the effectiveness of the issuer's internal control, internal audit where applicable, and risk management systems;

(3) monitoring the statutory audit of the annual accounts; and

(4) reviewing and monitoring the independence of the statutory auditor, and in particular the provision of additional services to the issuer.

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

Fostering business relationships

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

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 and financial statements for the year ended 31 December 2021.

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).

Going concern basis

The Directors have considered the Company's net liabilities of £158,004,000 as at 31 December 2021, as well as 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.

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

Going concern basis (continued)

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 are required to prepare the financial statements in accordance with IFRSs as issued by the International Accounting Standards Board ("IASB") and endorsed for use in the UK by the UK Endorsement Board, referred to as "'UK-adopted IFRS". 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 Company'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, where this exists. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the UK, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face; and
- the Annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the board of directors on 28 February 2022 and is signed on its behalf by:

M B Kenny
Director

A J Wesson
Director

Registered Office:
Ground Floor
WeWork 1 Waterhouse Square
138-142 Holborn
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Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Eversholt Funding plc (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 changes in equity;
- the cash flow statement;
- the statement of accounting policies; 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.

2. 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Treasury transactions Within this report, key audit matters are identified as follows:

	Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £3,160,000 which was determined on the basis of 2% of equity.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes in our audit approach in the current year.

4. 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.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the financing facilities available to the Company. The values, terms and maturities of those facilities were confirmed to lender confirmations and underlying agreements.
- Challenging the assessment of the impact of COVID-19 on the Company's cash flows and its forecast ability to meet its obligations. Key assumptions tested included the amount of revenue supported by existing lease arrangements and the legal arrangements in place in the event of an operator default and we obtained an understanding of these arrangements.
- Testing of mechanical accuracy of the model used to prepare forecasts.
- Review of the disclosures made in the financial statements to determine whether they appropriately present the key assumptions the Directors have made.

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.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Treasury transactions

Key audit matter description	At 31 December 2021 the Company had total borrowings of £1,945m (31 December 2020: £1,982m). The Company mitigates the exposure to interest rate and foreign exchange rate risks with risk management activities including the use of derivatives such as variable interest rate swaps. The Company designates derivatives in hedge relationships where possible. The valuation of the derivative portfolio requires management to make certain assumptions and judgments around the valuation methodologies adopted. In 2021, due to the requirement of the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), the LIBOR rates have transitioned to SONIA plus a credit adjustment. This triggered the group to implement the accounting treatment to reflect these changes. We have identified the accuracy and valuation of certain treasury derivatives as a key audit matter due to the level of judgement and the technical nature of determining derivative values. Refer additionally to notes 12 (Derivative financial instruments) and 18 (Risk management) to the financial statements for further detail on derivatives. Further refer to note 3.4 Financial instruments for summary of accounting policy, strategic report on page 2 and directors' report on page 6.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the recording and valuation of derivative financial instruments and tested the relevant controls over the valuation and challenge of the estimates made. With the involvement of our treasury specialists, we have tested a sample of the models used by management, including a challenge of the assumptions therein, to assess the appropriateness of the valuation methodology adopted and the assumptions applied. Where relevant we have obtained third party confirmations to test the completeness and accuracy of the information held within the Company's treasury management system. We have performed the assessment of the accounting impact on SONIA plus a credit adjustment spread with the new rates to the related financial instruments We have analysed the hedge effectiveness testing performed by management including the assessment of forecast transactions and tested the disclosure of hedge relationships within the financial statements.
Key observations	The results of our procedures were satisfactory and based on these procedures we conclude that the accounting for derivative financial instruments and the issuance of debt, including the Company's use of hedge accounting, is appropriate.

6. Our application of materiality

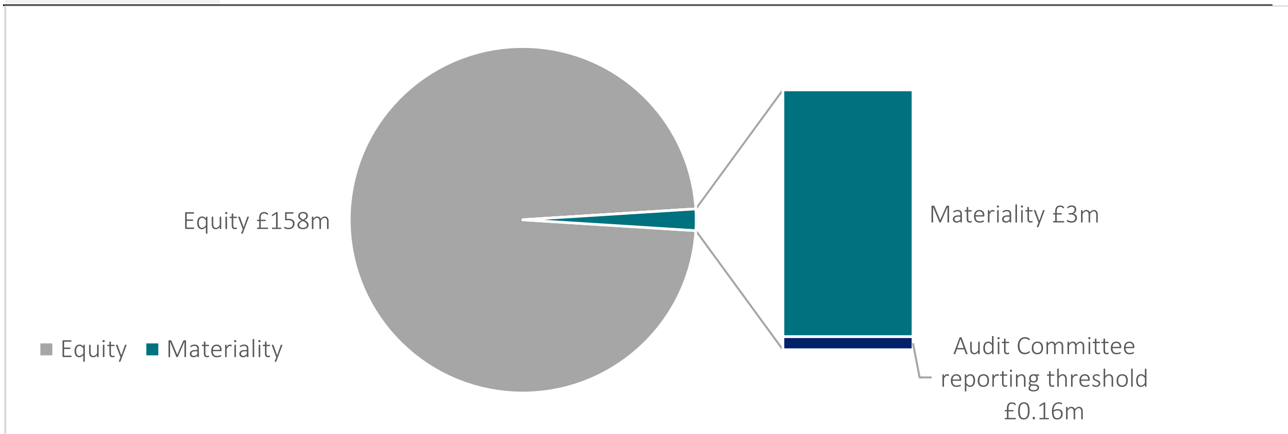
6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EVERSHOLT FUNDING PLC (CONTINUED)

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£3.16m (2020: £3.78m)
Basis for determining materiality	2% of equity (2020: 2% of equity)
Rationale for the benchmark applied	We believe equity is the most appropriate benchmark as it is considered to be one to the principal considerations for members of the Company in assessing its financial performance.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

- Our risk assessment, including our understanding of the Company's overall control environment;
- there have not been any significant changes in business structure and operations; and
- our experience from previous audit, which shows which has indicated a low number of corrected and uncorrected misstatements identified in prior years.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £158,000 (2019: £189,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. We performed a risk assessment which factors in the size, composition and qualitative factors relating to all account balances, classes of transactions and disclosures. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

Our risk assessment procedures included obtaining an understanding of controls considered to be relevant to the financial reporting process and the audit. We obtained an understanding of relevant controls in treasury cycle.

With the involvement of our IT specialists, we obtained an understanding of the GITC's (General Information Technology Controls) and tested the relevant GITC's during the year ended 31 December 2021.

We have identified Agresso (the Group's finance system) as the key IT application relevant to the audit and is used by the Company for internal and external financial reporting. We have placed reliance on GITC's on the Agresso system.

8. 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.

9. 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.

10. 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.

11. 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

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

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- 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.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors at the AGM on 19 February 2016 to audit the financial statements for the year ending 31 December 2015 and subsequent periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2015 to 31 December 2021.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EVERSHOLT FUNDING PLC (CONTINUED)

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. 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			
Fee income	***4.1***	**478**	1,856
Finance income	***4.2***	**109,561**	118,700
Total revenue		**110,039**	120,556
Finance expense	***5***	**(103,840)**	(119,408)
Net fair value gain/(loss) on derivative financial instruments	***12***	**13,318**	(5,907)
Gross profit/(loss)		**19,517**	(4,759)
Administrative expense	***6***	**(413)**	(340)
Other gains	***15***	**-**	11,354
Other losses	***15***	**-**	(11,354)
Profit/(loss) before tax		**19,104**	(5,099)
Income tax (charge)/credit	***8***	**(618)**	3,138
Profit/(loss) for the year		**18,486**	(1,961)

There were no discontinued or discontinuing operations during the year.

The notes on pages 22 to 45 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Profit/(loss) for the year		**18,486**	(1,961)
Other comprehensive income/(expense)			
Effective portion of changes in fair value of cash flow hedges	***12***	**3,894**	(51,172)
Released to fellow group undertaking	***12***	**1**	-
Realised loss on cash flow hedges to fellow group undertaking	***12***	**961**	1,153
Realised loss on cash flow hedge released to Income statement	***12***	**4,242**	353
Tax credit on the effective portion of changes in fair value of cash flow hedges	***12***	**3,509**	10,492
Total Other comprehensive income/(expense)		**12,607**	(39,174)
Total comprehensive income/(expense) for the year		**31,093**	(41,135)

Effective portion of changes in fair value cash flow hedges, together with related tax effects, may be reclassified to the Income statement in future years.

Statement of financial position
as at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Deferred tax	*10*	**35,998**	31,135
Derivative financial instruments	*12*	**17,940**	48,325
Amounts owed by group undertakings	*11*	**1,879,606**	1,930,422
		1,933,544	2,009,882
Current assets			
Amounts owed by group undertakings	*11*	**74,527**	60,620
Current tax		**-**	9,910
Cash and cash equivalents	*13*	**500**	500
Trade and other receivables		**48**	32
		75,075	71,062
Total assets		**2,008,619**	2,080,944
Liabilities and equity			
Current liabilities			
Trade and other payables	*14*	**108**	50
Current tax		**1,905**	-
Borrowings	*15*	**71,660**	57,644
		73,673	57,694
Non-current liabilities			
Borrowings	*15*	**1,873,950**	1,924,442
Amounts owed to group undertakings	*11*	**62,133**	83,344
Derivative financial instruments	*12*	**156,867**	204,561
		2,092,950	2,212,347
Total liabilities		**2,166,623**	2,270,041
Equity			
Share capital	*17*	**50**	50
Accumulated deficit		**(87,665)**	(106,151)
Hedging reserve	*12*	**(70,389)**	(82,996)
Total equity		**(158,004)**	(189,097)
Total equity and liabilities		**2,008,619**	2,080,944

The notes on pages 22 to 45 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: 07329930

Statement of cash flows
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flow from operating activities			
Profit/(loss) before tax		**19,104**	(5,099)
Adjustments for:			
- Finance expense	*5*	**103,840**	117,753
- Finance income	*4.2*	**(109,561)**	(118,700)
- Amortisation of capitalised finance charges	*21.2*	**455**	690
- Capitalisation of finance charges		**-**	299
- Fair value adjustment on derivative financial instruments	*12*	**(13,318)**	5,907
- Other gains	*15*	**-**	(11,354)
- Other losses	*15*	**-**	11,354
Operating cash flow before changes in working capital		**520**	850
Increase in trade and other receivables		**(16)**	(22)
Increase in trade and other payables	*14*	**58**	28
Cash flow generated by operating activities		**562**	856
Receipt in respect of group relief		**9,843**	325
Net cash generated by operating activities		**10,405**	1,181
Cash flow from investing activities			
Amounts repaid by Eversholt Rail Limited	*16*	**39,927**	44,653
Interest received on loan to Eversholt Rail Limited	*16*	**106,543**	120,256
Net cash generated by investing activities		**146,470**	164,909
Cash flow from financing activities			
Movement in intercompany loan from Eversholt Rail Limited	*16*	**(23,611)**	52,646
Settlement of derivatives	*12*	**-**	(52,966)
External borrowing raised	*16*	**-**	340,348
External borrowing paid	*16*	**(39,927)**	(300,000)
Bank loans paid	*16*	**-**	(85,000)
Interest paid on bonds	*16*	**(85,630)**	(101,717)
Interest paid on bank loans	*16*	**-**	(221)
Interest paid on swaps	*16*	**(7,553)**	(17,625)
Financing fees paid		**(154)**	(2,516)
Net cash utilised in financing activities		**(156,875)**	(167,051)
Net movement in cash and cash equivalents		**-**	(961)
Cash and cash equivalents at the beginning of the year		**500**	1,461
Cash and cash equivalents at the end of the year	*13*	**500**	500

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

	Note	Share capital £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2020		50	(43,822)	(104,190)	(147,962)
Loss for the year		-	-	(1,961)	(1,961)
Effective portion of changes in fair value of cash flow hedges	*12*	-	(51,172)	-	(51,172)
Realised loss on cash flow hedge released to fellow group companies	*12*	-	1,153	-	1,153
Realised loss on cash flow hedge released to Income statement	*12*	-	353	-	353
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	*12*	-	10,492	-	10,492
Total comprehensive expense		-	(39,174)	(1,961)	(41,135)
Balance at 31 December 2020		**50**	**(82,996)**	**(106,151)**	**(189,097)**
Profit for the year		**-**	**-**	**18,486**	**18,486**
Effective portion of changes in fair value of cash flow hedges	***12***	**-**	**3,894**	**-**	**3,894**
Released to fellow group undertaking	***12***	**-**	**1**	**-**	**1**
Realised loss on cash flow hedge released to fellow group companies	***12***	**-**	**961**	**-**	**961**
Realised loss on cash flow hedge released to Income statement	***12***	**-**	**4,242**	**-**	**4,242**
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	***12***	-	**3,509**	-	**3,509**
Total comprehensive income		**-**	**12,607**	**18,486**	**31,093**
Balance at 31 December 2021		**50**	**(70,389)**	**(87,665)**	**(158,004)**

Notes to the annual financial statements

for the year ended 31 December 2021

1 General Information

Eversholt Funding plc is a public 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 Eversholt Funding plc have been prepared on the historical cost basis except for derivative financial instruments measured at fair value. These financial statements have been prepared in accordance with IFRSs, issued by the IASB 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; and

- 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.

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 net liabilities of £158,004,000 as at 31 December 2021, as well as 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 Finance income and expense

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

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

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

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

3.2 Fees and other income

Income is recognised on satisfaction of the performance obligation in relation to the service required by the customer and when control of that service is passed to the customer. Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in “Finance income”.

3.3 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. Deferred tax assets and liabilities are offset if, and only if:

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

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

 (i) the same taxable entity; or

3 Summary of significant accounting policies (continued)

3.3 Income tax (continued)

(ii) different taxable entities that intended to either settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

3.4 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.

3.4.1 Classification and measurement

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

The Company holds the following classes of financial instruments:

Amounts owed by group undertakings and Trade and other receivables

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

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

Cash and cash equivalents

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

Financial liabilities

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

Other than derivative liabilities, financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Subsequent to initial recognition, financial liabilities, other than derivatives are measured at amortised cost using the effective interest rate method.

The Company derecognises the financial liability when the obligations specified in the contract expire, are discharged or cancelled.

3.4.2 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.

Where required, 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.2 Impairment of financial assets (continued)

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.

3.4.3 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.

3.4.4 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.

3.4.5 Derivatives and hedge accounting

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate fluctuations.

Derivative financial instruments are recognised at fair value. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Where derivatives do not qualify for hedge accounting the gain or loss on remeasurement to fair value is recognised immediately in the Income statement.

However, where derivatives qualify for hedge accounting, the Company recognises the effective part of any gain or loss on the derivative financial instrument in Other comprehensive income, which is accounted for in the Hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income statement. The effective part of any gain/loss is the lower of:

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

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

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

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.6 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. Independent verification is also sought from the relevant counterparty. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Where required, fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

3.4.7 Interest rate benchmark reform

Prior to the introduction of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2, the Group adopted the requirements set out in Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7.

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

The amendments were relevant to the Company as it applied hedge accounting to its future interest rate exposures. The application of the amendments impacted the Company’s accounting in the following ways:

- The Company has highly probable future funding costs, which it cash flow hedged using GBP LIBOR interest rate swaps. The amendments permitted continuation of hedge accounting even though there was uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.
- The Company retained the cumulative gain or loss in the hedge reserve for designated hedges that were subject to interest rate benchmark reforms even though there was uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Company have considered that the hedged future cash flows were no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss would have been immediately reclassified to profit or loss.

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.7 Interest rate benchmark reform (continued)

See note 12 for further details of the Company's replacement of LIBOR as the reference rate in its financial instruments.

3.5 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 "Cash flow from operating activities", movements in amounts owed by/to group undertakings are shown under the heading of "Cash flow from investing activities" and "Cash flow from financing activities" respectively.

3.6 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.

3.7 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 Revenue

4.1 Fee income

	2021 £'000	2020 £'000
Expenses recharged to Eversholt Rail Limited	**478**	373
Funding service fees charged to Eversholt Rail Limited	**-**	15
Transaction fees charged to Eversholt Rail Leasing Limited	**-**	1,468
	478	1,856

4.2 Finance income

	2021 £'000	2020 £'000
Interest receivable from Eversholt Rail Limited	**109,561**	118,700
	109,561	118,700

Finance income represents interest receivable on amounts due from Eversholt Rail Limited carried at amortised cost.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

5 Finance expense

	2021 £'000	2020 £'000
Interest payable on bank loans	**-**	(175)
Interest payable on bonds	**(85,349)**	(99,667)
Fees payable	**(36)**	(37)
Interest payable to Eversholt Rail Limited	**(3,362)**	(318)
Finance expense in relation to financial liabilities carried at amortised cost	**(88,747)**	(100,197)
Transfer from hedging reserve	**(4,242)**	(353)
Interest payable on swaps	**(7,456)**	(17,203)
	(100,445)	(117,753)
Other finance and interest costs	**(3,395)**	(1,655)
Total	**(103,840)**	(119,408)

6 Administrative expense

Administrative expense includes:

	2021 £'000	2020 £'000
Fees payable by Eversholt Rail Limited to the Company's auditor for the audit of the Company's annual financial statements	**(101)**	(99)

The Company has no employees and hence no staff costs.

7 Directors' emoluments

Non-executive directors

	2021 £'000	2020 £'000
Directors' fees	**(24)**	(24)

The charge for four of the Directors' services has been borne by another group company, Eversholt Rail Limited. The fees, above, represent the charge for LDC Securitisation Director No. 3 Limited's corporate director services and have been borne by the Company and are included in administrative expense.

8 Income tax (charge)/credit

	Note	2021 £'000	2020 £'000
Current tax			
UK Corporation tax on current year result		**(1,905)**	9,910
Adjustment in respect of prior years		**(67)**	-
Deferred tax			
Origination and reversal of temporary differences	*10*	**(1,724)**	(8,941)
Change in tax rate	*10*	**3,011**	2,169
Adjustment in respect of prior years	*10*	**67**	-
Income tax (charge)/credit		**(618)**	3,138

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

8 Income tax (charge)/credit (continued)

The UK corporation tax rate for the years ended 31 December 2021 and 31 December 2020 was 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 and losses had been taxed at the UK corporation tax rate:

	2021 **£'000**	**2020** **£'000**
Profit/(loss) before tax	**19,104**	(5,099)
Taxation at corporation tax rate of 19% (2020: 19%)	**(3,629)**	969
Change in tax rate	**3,011**	2,169
Income tax (charge)/credit	**(618)**	3,138

9 Dividends

For the year ended 31 December 2021 no dividend has been paid or declared (2020: £nil).

10 Deferred tax asset

Deferred tax assets and liabilities are offset where the relevant criteria are met (see note 3.3). Deferred tax arises on timing differences created by unrealised changes in the fair value of derivative financial instruments.

	2021 **£'000**	**2020** **£'000**
Balance at 1 January	**31,135**	27,415
Charge to Income statement	**(1,724)**	(8,941)
Credit to Other comprehensive income	**(1,730)**	9,436
Effect of change in tax rate:		
- Income statement	**3,011**	2,169
- Other comprehensive income	**5,239**	1,056
Prior year adjustment	**67**	-
Balance at 31 December	**35,998**	31,135

The deferred tax asset is considered recoverable on the basis that there will be future taxable profits in other group entities against which the deductible temporary differences will be utilised.

Deferred tax is calculated by reference to the tax rates that apply when the corresponding deferred tax asset is realised. 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

11 Amounts owed by/to group undertakings

	2021 £'000	2020 £'000
Current assets		
Intercompany accrued interest	**20,315**	20,693
Eversholt Rail Limited	**54,212**	39,927
	74,527	60,620
Non-current assets		
Eversholt Rail Limited	**1,879,606**	1,930,422
	1,954,133	1,991,042

The terms of this loan mirror the terms of the Company's external debt described in note 15.

	2021 £'000	2020 £'000
Non-current liabilities		
Eversholt Rail Limited – intercompany loan	**62,133**	83,344

The intercompany loan from Eversholt Rail Limited is classified as non-current as it is repayable on or before 4 November 2023. Borrowing entities may prepay and redraw loans until the repayment date. Interest on the loan is payable monthly at a floating rate, which substantially matches the rate of the Group's senior debt, plus a margin (2020: Group's senior debt, plus a margin).

The amounts above reflect the refinancing described in note 15.

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

12 Derivative financial instruments

The fair value of derivative financial instruments shown in the Statement of financial position, includes related accrued interest.

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

	Note	2021 £'000	2020 £'000
Non-current assets			
Fair value – excluding accrued interest		**16,415**	46,883
Accrued interest		**1,525**	1,442
		17,940	48,325
Non-current liabilities			
Fair value – excluding accrued interest		**(152,994)**	(200,674)
Accrued interest		**(3,873)**	(3,887)
		(156,867)	(204,561)
Total derivative financial instruments (excluding accrued interest)	**See below**	**(136,579)**	(153,791)
Total accrued interest	**16**	**(2,348)**	(2,445)

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

12 Derivative financial instruments (continued)

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

31 December 2021	Maturity	Notional Amount £'000	Fair Value Amount £'000	Change in fair value used for calculating hedge ineffectiveness £'000
Non-current assets				
Interest rate swap contracts	July 2045	**249,342**	**16,415**	**-**
Non-current liabilities				
Interest rate swap contracts	April 2040	**(300,000)**	**(36,668)**	**-**
Interest rate swap contracts	June 2040	**300,000**	**(44,024)**	**-**
Interest rate swap contracts	July 2049	**(249,342)**	**(63,646)**	**-**
Interest rate swap contracts – hedge accounted	October 2049	**(237,500)**	**(8,656)**	**4,520**
		(486,842)	**(152,994)**	**4,520**
Total derivative financial instruments		**(237,500)**	**(136,579)**	**4,520**

31 December 2020	Maturity	Notional Amount £'000	Fair Value Amount £'000	Change in fair value used for calculating hedge ineffectiveness £'000
Non-current assets				
Interest rate swap contracts	July 2045	250,365	46,883	-
Non-current liabilities				
Interest rate swap contracts	April 2040	(300,000)	(73,352)	-
Interest rate swap contracts	June 2040	300,000	(15,398)	-
Interest rate swap contracts	July 2045	(250,365)	(98,748)	-
Interest rate swap contracts – hedge accounted	October 2049	(237,500)	(13,176)	(50,321)
		(487,865)	(200,674)	(50,321)
Total derivative financial instruments		(237,500)	(153,791)	(50,321)

The fair value of derivative financial instruments at 31 December 2021 is based on market rates at 31 December 2021. The comparative fair values at 31 December 2020 are based on market rates at 31 December 2020.

Notional of derivative financial instruments not designated in hedge relationship offset each other in periods up to 2045. The instruments designated in a hedge relationship are forward starting interest rate swaps that hedge highly probable forecast variable rate funding costs from 2040 to 2049.

The Company's swap contracts that are included in a hedge accounting relationship, are used to manage its overall hedging ratio.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

12 Derivative financial instruments (continued)

As at 31 December 2021, the Company's hedge accounted swaps were deemed to be highly effective and the fair value liability associated to these interest rate swaps was £8,656,000 (31 December 2020: £13,176,000).

Hedge ineffectiveness gain of £626,000 (2020: £851,000 gain) comprised the difference between the change in the fair value of the:

- hedged item used as a basis of recognising hedge ineffectiveness loss of £3,894,000 (2020: £51,172,000 gain); and
- interest rate swaps used as a basis of recognising hedge ineffectiveness gain of £4,520,000 (2020: £50,321,000 loss).

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

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

Movement of fair value in Derivative financial instruments

	Not hedge accounted £'000	Current hedge accounted £'000	Total £'000
Balance as at 1 January 2021	**(140,615)**	**(13,176)**	**(153,791)**
Unrealised gain through the Income statement			
- Ineffective	**-**	**626**	**626**
- Change in fair value of non-hedge accounted derivatives	**12,692**	**-**	**12,692**
	12,692	**626**	**13,318**
Unrealised gain through Other comprehensive income	**-**	**3,894**	**3,894**
Balance as at 31 December 2021	**(127,923)**	**(8,656)**	**(136,579)**
Balance as at 1 January 2020	(100,062)	(49,616)	(149,678)
Unrealised (loss)/gain through the Income statement			
- Ineffective	-	851	851
- Change in fair value of non-hedge accounted derivatives	(6,758)	-	(6,758)
	(6,758)	851	(5,907)
Settlement	52,966	-	52,966
Transfer*	(86,761)	86,761	-
Unrealised loss through Other comprehensive income	-	(51,172)	(51,172)
Balance as at 31 December 2020	(140,615)	(13,176)	(153,791)

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

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

12 Derivative financial instruments (continued)

Movement in Hedging reserve

	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance as at 1 January 2021	**1,343**	**81,653**	**82,996**
Unrealised gain through Other comprehensive income	**(3,894)**	**-**	**(3,894)**
Released to fellow group undertaking	**-**	**(1)**	**(1)**
Realised loss on cash flow hedges to fellow group undertakings	**-**	**(961)**	**(961)**
Release to Income statement		**(4,242)**	**(4,242)**
Income tax on Other comprehensive income	**874**	**(4,383)**	**(3,509)**
Balance as at 31 December 2021	**(1,677)**	**72,066**	**70,389**

Balance as at 1 January 2020	39,948	3,874	43,822
Unrealised loss through Other comprehensive income	51,172	-	51,172
Realised loss on cash flow hedges to fellow group undertakings	-	(1,153)	(1,153)
Release to Income statement	-	(353)	(353)
Transfer**	(97,644)	97,644	-
Income tax on Other comprehensive income	7,867	(18,359)	(10,492)
Balance as at 31 December 2020	1,343	81,653	82,996

**Transfer relates to the termination of a hedge relationship in June 2020. The hedged item, being forecast interest costs, is still expected to arise and therefore related amounts have been reclassified accordingly. The gross amount transferred is £97,644,000 and related deferred tax is £18,552,000. Cumulative unrealised losses of £72,066,000 (2020: £81,653,000) relating to Interest rate swaps terminated in prior years remain in the hedging reserve and will be recognised in the Income statement in future years, when the originally hedged future cashflows occur. At 31 December 2021 the Company held interest rate swaps with a fair value liability of £127,923,000 (2020: £140,615,000) which were not designated in hedging relationships for accounting purposes.

Certain bond agreements include contractual obligations to settle cross-currency derivative financial instruments, that the lender has entered into pursuant to the bonds, in the event that the Security Group either defaults on or repays the bonds before maturity. The embedded derivatives resulting from such arrangements have been valued at £nil (2020: £nil) on the basis that the Group is not in default and is not forecast to be in default or to repay bonds early.

See note 18.4 for details of interest rate risk management.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

12 Derivative financial instruments (continued)

Replacement of LIBOR as an interest rate benchmark

During 2021, the Company replaced LIBOR as the reference interest rate in all financial instruments that contained LIBOR as the benchmark interest rate. Instruments impacted are interest rate swaps and borrowings, as described in notes 12 and 15, together with the revolving credit facility referenced in note 18.4. Interest will be paid under the new rate for the first time in early 2022. In each case, 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.

13 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2021 £'000	2020 £'000
Bank balances	**500**	500

£500,000 (2020: £500,000) of cash and cash equivalents is restricted cash in line with the terms of an agreement with the security trustee for the Company's secured creditors.

14 Trade and other payables

	2021 £'000	2020 £'000
Fees and other payables accrued	**108**	50

15 Borrowings

	2021 £'000	2020 £'000
Current		
Interest accrued	**17,967**	18,248
Bonds	**54,212**	39,927
Transaction costs	**(519)**	(531)
	71,660	57,644
Non-current		
Bonds	**1,879,606**	1,930,423
Transaction costs	**(5,656)**	(5,981)
	1,873,950	1,924,442
Total borrowings	**1,945,610**	1,982,086

Bond principal amount	Interest rate Semi-annual coupon	Due date
£271m*	6.359%	2025
£386m**	6.698%	2022-2035
£100m	SONIA+margin	2028-2036
£90m	Fixed rate	2030
£50m	Fixed rate	2028-2036
£100m	Fixed rate	2026-2031
£100m	Fixed rate	2037
£400m	3.529%	2034-2042
£474m*	2.742%	2022-2040

None of the bonds is puttable.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

15 Borrowings (continued)

*The above table includes new bond issuance of £500,000,000 in June 2020, of which £159,700,000 was used to repay £128,700,000 of the £400,000,000 bonds otherwise maturing in 2025 (“2025 Debt”). The bond principal amount therefore reduced to £271,300,000 as at 30 June 2020. The part repayment was accounted for as a debt modification and not as an extinguishment of the original debt and issue of new debt under IFRS 9 Financial Instruments. This was on the basis that the terms of the debt had not substantially changed. Accordingly, the carrying value of the existing debt was restated to equal the present value of modified cashflows, giving rise to a gain of £11,354,000 recognised in the Income statement. The revised cashflows were discounted at the effective interest rate associated with the original 2025 Debt which equated to a carrying value of £117,300,000 included in non-current borrowings above. £25,641,000 of the bond was repaid in 2021.

The Company’s loan to Eversholt Rail Limited (note 11) mirrors the terms of the Company’s external debt. Therefore the impact of the refinancing was also reflected through the loan to Eversholt Rail Limited. Accordingly this resulted in a loss in the Income statement that was equal and opposite to the gain recorded above.

**£14,286,000 of the bond was repaid in 2021.

The Security Group finances itself using a Common Terms platform. This means that all covenants on the performance and management of the Security Group apply to all Senior lenders. Failure to comply with these may result in Bank loans and Bonds being repayable on demand. The Security Group was in compliance with the covenants during 2021.

The Security Group has granted a fixed and floating charge over all of its assets to secure this financing.

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

Maturity of borrowings

The maturity profile of the carrying amount of the Company’s non-current borrowings at 31 December 2021 was as follows:

	2021 **£’000**	**2020** **£’000**
In more than one year but not more than two years	**54,212**	54,212
In more than two years but not more than five years	**433,986**	433,987
In more than five years	**1,391,408**	1,442,224
	1,879,606	1,930,423

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

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

31 December 2021	**As at 31 December 2020 £'000**	**Non-cash finance (income)/ expense £'000**	**Cash Flows receipts/ (payments) £'000**	**As at 31 December 2021 £'000**
Financing activities attributable to:				
Liabilities				
Eversholt Rail Limited*	**83,344**	**2,400**	**(23,611)**	**62,133**
Bond interest accrued	**18,248**	**85,349**	**(85,630)**	**17,967**
Swap interest accrued	**2,445**	**7,456**	**(7,553)**	**2,348**
Bank loan interest accrued	**(1)**	**1**	**-**	**-**
Bonds	**1,970,350**	**3,395**	**(39,927)**	**1,933,818**
Bank loans	**-**	**-**	**-**	**-**
	2,074,386	**98,601**	**(156,721)**	**2,016,266**
Assets				
Eversholt Rail Limited interest accrued	**(20,693)**	**(106,165)**	**106,543**	**(20,315)**
Eversholt Rail Limited loan	**(1,970,349)**	**(3,396)**	**39,927**	**(1,933,818)**
	(1,991,042)	**(109,561)**	**146,470**	**(1,954,133)**

31 December 2020	**As at 31 December 2019 £'000**	**Non-cash finance (income)/ expense £'000**	**Cash Flows receipts/ (payments) £'000**	**As at 31 December 2020 £'000**
Financing activities attributable to:				
Liabilities				
Eversholt Rail Limited*	31,533	(835)	52,646	83,344
Bond interest accrued	20,298	99,667	(101,717)	18,248
Swap interest accrued	2,867	17,203	(17,625)	2,445
Bank loan interest accrued	45	175	(221)	(1)
Bonds	1,940,000	(9,998)	40,348	1,970,350
Bank loans	85,000	-	(85,000)	-
	2,079,743	106,212	(111,569)	2,074,386
Assets				
Eversholt Rail Limited interest accrued	(22,249)	(118,700)	120,256	(20,693)
Eversholt Rail Limited loan	(2,025,000)	9,998**	44,653	(1,970,349)
	(2,047,249)	(108,702)	164,909	(1,991,042)

* Non-cash finance expense includes amounts of £961,000 (2020: £1,153,000) in relation to realised losses on cash flow hedges transferred from hedging reserve.

**This includes the gain/loss on refinancing together with related fees.

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		
50,000 Ordinary shares of £1 each	**50**	50

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

18 Risk management

The Company has exposure to the following types of risk arising from its use of financial instruments: capital risk, credit risk, liquidity risk and market risk. Market risk includes foreign exchange risk and interest rate risk. 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 3.7.

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.

18.1 Capital risk management

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

The capital structure of the Company comprises principally of borrowings from Senior lenders and equity from its immediate parent.

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

18.2 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 lending arrangements and derivative contracts.

The Company monitors the exposure to other group undertakings, cash and cash equivalents balances and trade and other receivables 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.

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 the credit risk since the exposure first arose or whether a financial asset is credit impaired, management takes into account the following:

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

The financial assets are performing in accordance with the terms of the arrangement i.e. all payments to date as well as those expected in the future, have been made/are expected to be made in accordance with the underlying contractual terms. No part of the financial asset is credit impaired or overdue, or in default.

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

18 Risk management (continued)

18.2 Credit risk management (continued)

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 (being amounts owed by group undertakings, cash and cash equivalents balances and trade and other receivables in this context), 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 amounts owed by group undertakings, cash and cash equivalents, or trade and other 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.

18.3 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 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 the Company to borrow under a £600,000,000 revolving credit facility which matures on 4 November 2023.

Undiscounted cash flows in respect of the intercompany loan from 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.

Undiscounted cash flows on the Company assets and liabilities are analysed below by their contractual due date:

31 December 2021	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
Financial assets						
Fair value through profit or loss						
Derivative financial instruments	**17,940**	**19,877**	**-**	**2,777**	**972**	**16,128**
Amortised cost						
Amounts owed by group undertakings	**1,954,133**	**2,747,127**	**-**	**138,634**	**816,932**	**1,791,561**
Cash and cash equivalents	**500**	**500**	**-**	**-**	**-**	**500**
Trade and other receivables	**48**	**48**	**-**	**48**	**-**	**-**
Total financial assets	**1,972,621**	**2,767,552**	**-**	**141,459**	**817,904**	**1,808,189**
Financial liabilities						
Fair value through profit or loss						
Derivative financial instruments	**156,867**	**172,716**	**-**	**10,283**	**30,716**	**131,717**
Amortised cost						
Borrowings	**1,951,785**	**2,747,127**	**-**	**138,634**	**816,932**	**1,791,561**
Intercompany loans	**62,133**	**62,133**	**-**	**-**	**62,133**	**-**
Trade and other payables	**108**	**108**	**-**	**108**	**-**	**-**
Total financial liabilities	**2,170,893**	**2,982,084**	**-**	**149,025**	**909,781**	**1,923,278**
Total financial instruments	**(198,272)**	**(214,532)**	**-**	**(7,566)**	**(91,877)**	**(115,089)**

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

18 Risk management (continued)

18.3 Liquidity risk management (continued)

31 December 2020	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
Financial assets						
Fair value through profit or loss						
Derivative financial instruments	48,325	50,549	-	3,564	13,072	33,913
Amortised cost						
Amounts owed by group undertakings	1,991,042	2,861,937	-	125,446	807,160	1,929,331
Cash and cash equivalents	500	500	-	-	-	500
Trade and other receivables	32	32	-	32	-	-
Total financial assets	2,039,899	2,913,018	-	129,042	820,232	1,963,744
Financial liabilities						
Fair value through profit or loss						
Derivative financial instruments	204,561	215,423	-	11,117	42,908	161,398
Amortised cost						
Borrowings	1,988,598	2,861,937	-	125,446	807,160	1,929,331
Intercompany loans	83,344	83,344	-	-	83,344	-
Trade and other payables	50	50	-	50	-	-
Total financial liabilities	2,276,553	3,160,754	-	136,613	933,412	2,090,729
Total financial instruments	(236,654)	(247,736)	-	(7,571)	(113,180)	(126,985)

Cash and cash equivalents (recoverable after 5 years) of £500,000 (2020: £500,000) is restricted cash in line with the terms of an agreement with the security trustee for the Group's secured creditors.

The financial liabilities carried at amortised cost in the above table can be reconciled to note 15 as follows:

	2021 £'000	2020 £'000
Borrowings at amortised cost	**1,951,785**	1,988,598
Transaction costs	**(6,175)**	(6,512)
Borrowings per note 15	**1,945,610**	1,982,086

18.4 Market risk management

Interest rate risk management

The Group's interest rate risk arises from its borrowings net of cash and cash equivalents. Borrowings at variable rates expose the Group to cashflow interest rate risk.

The Group manages its exposure to interest rate risk on its borrowings by entering into interest rate swaps to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the agreed Hedging Policy.

As at 31 December 2021, after adjusting for the effect of derivative financial instruments detailed in note 12, approximately 95 per cent (2020: 95 per cent) of £1,933,818,000 (2020: £1,970,350,000) debt was at fixed rates of interest.

18.4 Market risk management (continued)

Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase in interest expense of £500,000 (2020: £450,000 decrease) offset by an increase in intercompany term lending interest receipt, an increase in intercompany interest expense of £15,000 (2020: £12,500) and an increase in cash deposit interest received of £3,000 (2020: £3,000). This represents a reasonable approximation of possible change.

A 50 basis points upwards parallel shift in the yield curve would have led to a decrease in fair value liability and a net fair value gain of £11,075,000 (2020: £12,765,000) on derivative financial instruments.

See note 12 for further details of the Company's replacement of LIBOR as the reference rate in its financial instruments.

Foreign exchange risk

The Company was not exposed to foreign exchange risk on its financial assets or financial liabilities during the period.

Approach to hedging

Consistent with prior years, the Company uses interest rate derivatives to manage its interest rate risk.

The Company borrows funds that carry a floating rate of interest. In addition, the Company seeks to fix the interest rate payable on future borrowings required to fund committed future and actual capital expenditure incurred by fellow group undertakings. Hence, the Company hedges the variability in cashflows inherent in highly probable forecast funding costs. Interest rate derivatives are used to manage interest rates exposure by swapping variable for fixed payments of interest on a notional amount of funding. Swaps are established in relation to specific funding.

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

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

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

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

19 Financial Instruments

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

31 December 2021	Note	Carrying amount		Fair value	
			Level 1	Level 2	Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Fair value through profit or loss					
Derivative financial instruments	**12**	**17,940**		**17,940**	
Amortised cost					
Amounts owed by group undertakings					
Intercompany fixed rate loan to Eversholt Rail Limited	**11**	**1,833,818**		**2,168,260**	
Intercompany loan to Eversholt Rail Limited (other)	**11**	**120,315**			
Cash and cash equivalents	**13**	**500**			
Trade and other receivables		**48**			
Total financial assets		**1,972,621**			
Financial liabilities					
Fair value through profit or loss					
Derivative financial instruments	**12**	**156,867**		**156,867**	
Amortised cost					
Publicly traded bonds	**15**	**1,493,818**	**1,784,692**		
Fixed rate borrowings	**15**	**340,000**		**383,568**	
Other borrowings	**15**	**117,967**			
Intercompany loan	**11**	**62,133**			
Trade and other payables	**14**	**108**			
Total financial liabilities		**2,170,893**			
Total financial instruments		**(198,272)**			

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

19 Financial Instruments (continued)

31 December 2020	**Note**	**Carrying amount**		**Fair value**	
			Level 1	**Level 2**	**Level 3**
		£'000	**£'000**	**£'000**	**£'000**
Financial assets					
Fair value through profit or loss					
Derivative financial instruments	12	48,325		48,325	
Amortised cost					
Amounts owed by group undertakings					
Intercompany fixed rate loan to Eversholt Rail Limited	11	1,870,349		2,299,672	
Intercompany loan to Eversholt Rail Limited (other)	11	120,693			
Cash and cash equivalents	13	500			
Trade and other receivables		32			
Total financial assets		2,039,899			
Financial liabilities					
Fair value through profit or loss					
Derivative financial instruments	12	204,561		204,561	
Amortised cost					
Publicly traded bonds	15	1,530,349	1,892,980		
Fixed rate borrowings	15	340,000		406,692	
Other borrowings	15	118,249			
Intercompany loan	11	83,344			
Trade and other payables	14	50			
Total financial liabilities		2,276,553			
Total financial instruments		(236,654)			

The financial liabilities carried at amortised cost in the above table can be reconciled to note 15 as follows:

	2021	**2020**
	£'000	**£'000**
Total financial liabilities per above	**2,170,893**	2,276,553
Derivative financial instruments	**(156,867)**	(204,561)
Transaction costs	**(6,175)**	(6,512)
Intercompany loan	**(62,133)**	(83,344)
Trade and other payables	**(108)**	(50)
Borrowings per note 15	**1,945,610**	1,982,086

20 Fair value of financial assets and liabilities

There are no other material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2021 (2020: £nil).

21 Related-party transactions

21.1 Identity of related parties

The Company has a related party relationship with its directors (refer to page 6) and with its fellow group undertakings of the Eversholt UK Rails Group, namely:

- Eversholt UK Rails Limited
- Eversholt UK Rails (Holding) Limited

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)

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

21.2 Transactions with related parties

The Company has loan accounts with fellow subsidiaries described in note 11 and note 15. Interest on these accounts is described in notes 4.2 and 5.

Payments made to directors are described in note 7.

The Company charged funding service fees to Eversholt Rail Limited of £nil (2020: £15,000). In addition, the Company recharged expenses to Eversholt Rail Limited of £478,000 (2020: £373,000).

The Company charged transaction fees to Eversholt Rail Leasing Limited of £nil (2020: £1,468,000).

The Company transferred borrowing related transaction costs of £455,000 (2020: £690,000) to Eversholt Rail Leasing Limited.

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

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.