

Eversholt Investment Limited

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

Registered No: IR490363

Registered office:

Riverside One

Sir John Rogerson's Quay

Dublin 2

D02 X576

Ireland

Annual report and financial statements

for the financial year ended 31 December 2021

Contents	Page
Directors' report	2
Statement of Directors' responsibilities	6
Independent Auditor's report	7
Income statement	10
Statement of comprehensive income	10
Statement of financial position	11
Statement of cash flows	12
Statement of changes in equity	13
Notes to the annual financial statements	14

Directors' report

for the financial year ended 31 December 2021

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

Principal activities

Eversholt Investment Limited (the "Company") is an investment holding company and continues to own all of the ordinary share capital of European Rail Finance Holdings Limited. The Company forms part of the Eversholt UK Rails Group ("Group") more fully described in note 21.

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

Business review

In the financial year the Company generated a profit of £61,937,000 (2020: £51,104,000), the increase is attributable to income tax credit (see note 10), together with a dividend income increase. As at 31 December 2021 the Company had net assets of £53,900,000 (2020: £33,763,000).

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

The Company has no employees. Directors have been remunerated by another group undertaking, Eversholt Rail Limited.

Risk management

The Company is subject to the risk management objectives and policies of the Group. The risks relevant to the Company, together with an analysis of the exposure to such risks, are set out in note 20 of the financial statements.

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

COVID-19

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

Given the nature of the Group's underlying contracts, the Directors have a good degree of certainty over its cashflows in the short to medium term and do not expect any significant negative impacts arising from the pandemic over the next 12 months. However, one area of potential impact upon the Group's business in the longer term is a sustained decline in demand for passenger rolling stock, given the pandemic's impact on commuting and transport habits. The extent to which passenger numbers recover in the medium to long-term is uncertain, albeit this may not necessarily adversely affect rolling stock capacity requirements. The Group's current rolling stock maintenance and enhancement plans may be subject to delays caused by COVID-19, however this is not considered a material risk. In common with UK businesses generally, the Group is also exposed to other risks including access to capital markets, impacts on supply chains, employee health and access to the workplace. The Group has introduced governance processes to closely monitor the impacts and where possible, mitigation has been put in place to limit the impact. The Directors continue to keep the demand for its passenger rolling stock under review as the full impact of COVID-19 emerges. The Group maintains a prudent level of liquidity to cater for adverse business conditions in the event of a prolonged severe period of disruption.

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 20. 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.

Directors' report (continued)

for the financial year ended 31 December 2021

Financial performance

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

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

Business environment

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

Political donations

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

Directors

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

Name

M B Kenny
A J Wesson

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

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

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

Streamlined energy and carbon reporting

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

During 2020 and 2021:

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

Future developments

No significant developments are currently anticipated.

Directors' report (continued)

for the financial year ended 31 December 2021

Dividends

During the year, the Directors declared and paid a dividend of £41,800,000 (2020: £46,500,000). Additionally, dividends of £265,000 (2020: £255,000) relating to profit participating preference shares were paid during the year.

Going concern basis

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

As well as its own resources, the Company is able to rely on financial support and access cash generated from other members of the Security Group, to the extent necessary, under the terms of the financing arrangements with lenders. In relation to the Security Group, the Directors have considered: its forecasts and projections; current financial resources (including cash of £225,064,000 (2020: £81,534,000) and undrawn committed borrowing facilities of £600,000,000 as at 31 December 2021 (2020: £600,000,000 undrawn)); projected performance against financial covenants; the high level of forecast revenue underpinned by existing lease agreements; the legal arrangements in place in the event of an operator default and the extent to which the UK Government is the "operator of last resort" in such circumstances; and potential mitigating actions. Multiple scenarios were run against the most recent forecasts as well as assessing the level of forecast revenue that would need to be lost before the Security Group breached any of its borrowing covenants.

Eversholt UK Rails (Holding) Limited has provided a letter of support to enable the Company to meet its liabilities as they fall due and to carry on their business for a period of at least 12 months following the date of approval of the financial statements.

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 under the heading COVID-19.

Disclosure of information to the auditor

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

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

Accounting records

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

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

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

Directors' report (continued)

for the financial year ended 31 December 2021

Accounting records (continued)

As required by Section 225 of the Companies Act 2014, the Directors acknowledge that the Directors are responsible for securing the Company's compliance with its relevant obligations; and

The Directors confirm that the Directors completed the following three procedures in order to comply with the Directors' obligations during the financial year:

a) the drawing up of a "compliance policy statement" setting out the Company's policies that, in the Directors' opinion, are appropriate to the Company, and respecting compliance by the Company with its relevant obligations;

b) the putting in place of appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with the Company's relevant obligations; and

c) the conducting of a review, during the financial year of any arrangements or structures that have been put in place.

Auditor

The auditors, Deloitte Ireland LLP continue in office.

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



M B Kenny
Director



A J Wesson
Director

Statement of Directors' responsibilities

for the financial year ended 31 December 2021

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

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

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

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

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

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

Independent Auditor's report to the Members of Eversholt Investment Limited for the financial year ended 31 December 2021

Report on the audit of the financial statements

Opinion on the financial statements of Eversholt Investment Limited (the 'Company')

In our opinion the financial statements:

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

The financial statements we have audited comprise:

- the Income Statement
- the Statement of Comprehensive Income;
- the Statement of Financial Position
- the Statement of Cash Flows
- the Statement of Changes in Equity;
- the related notes 1 to 23, including a summary of significant accounting policies as set out in note 3.

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

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

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

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

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Eversholt Investment Limited (continued)

for the year ended 31 December 2021

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Independent Auditor's Report to the Members of Eversholt Investment Limited (continued)

for the year ended 31 December 2021

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

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

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

Matters on which we are required to report by exception

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

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

Use of our report

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



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

Income statement

for the financial year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Dividend income	4	97,000	94,500
Finance income	5	495	495
Finance expense	6	(49,571)	(50,954)
Administrative expense	7	(49)	(10)
Profit before tax		47,875	44,031
Income tax credit	10	14,062	7,073
Profit for the financial year		61,937	51,104

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

The notes on pages 14 to 28 form an integral part of these financial statements.

Statement of comprehensive income

for the financial year ended 31 December 2021

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

Statement of financial position

as at 31 December 2021

Assets	Note	2021 £'000	2020 £'000
Non-current assets			
Investments in subsidiaries	11	418,238	418,238
Deferred tax	12	9,592	8,463
		<u>427,830</u>	<u>426,701</u>
Current assets			
Trade and other receivables	13	42	42
Cash and cash equivalents	14	24	30
		<u>66</u>	<u>72</u>
Total assets		<u>427,896</u>	<u>426,773</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	15	238	192
Current tax liabilities		1,207	7,501
Borrowings	16	340,649	340,644
		<u>342,094</u>	<u>348,337</u>
Non-current liabilities			
Borrowings	16	31,902	44,673
Total liabilities		<u>373,996</u>	<u>393,010</u>
Equity			
Share capital	18	12	12
Share premium		13,660	13,660
Retained earnings		40,228	20,091
Total equity		<u>53,900</u>	<u>33,763</u>
Total equity and liabilities		<u>427,896</u>	<u>426,773</u>

The notes on pages 14 to 28 form an integral part of these financial statements.

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



M B Kenny
Director



A J Wesson
Director

Company registration number IR490363

Statement of cash flows

for the financial year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flow from operating activities			
Profit before tax		47,875	44,031
Adjustments for:			
- Finance income	5	(495)	(495)
- Finance expense	6	49,571	50,954
- Dividend income	4	(97,000)	(94,500)
Operating cash flow before changes in working capital		<u>(49)</u>	<u>(10)</u>
Increase in trade and other payables		4	3
Cash flow utilised in operating activities		<u>(45)</u>	<u>(7)</u>
Group relief received		6,639	15,340
Net cash generated by operating activities		<u>6,594</u>	<u>15,333</u>
Cash flow from investing activities			
Dividend received	4	<u>97,000</u>	<u>94,500</u>
Net cash generated by investing activities		<u>97,000</u>	<u>94,500</u>
Cash flow from financing activities			
Movement in intercompany loan with Eversholt Rail Limited	17	(14,138)	(15,555)
Interest paid to parent undertaking	17	(47,892)	(48,023)
Finance income received	5	495	495
Profit participating preference shares dividend paid	17	(265)	(255)
Shareholder dividends paid	4	(41,800)	(46,500)
Net cash utilised in financing activities		<u>(103,600)</u>	<u>(109,838)</u>
Net movement in cash and cash equivalents		<u>(6)</u>	<u>(5)</u>
Cash and cash equivalents at the beginning of the financial year		<u>30</u>	<u>35</u>
Cash and cash equivalents at the end of the financial year	14	<u>24</u>	<u>30</u>

Statement of changes in equity

for the financial year ended 31 December 2021

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020		12	13,660	15,487	29,159
Total comprehensive income		-	-	51,104	51,104
Dividends paid	4	-	-	(46,500)	(46,500)
Balance at 31 December 2020		<u>12</u>	<u>13,660</u>	<u>20,091</u>	<u>33,763</u>
Total comprehensive income		-	-	61,937	61,937
Dividends paid	4	-	-	(41,800)	(41,800)
Balance at 31 December 2021		<u>12</u>	<u>13,660</u>	<u>40,228</u>	<u>53,900</u>

Dividends of £3,483 per share were paid during the financial year (2020: £3,875 per share).

Notes to the annual financial statements

for the financial year ended 31 December 2021

1 General Information

Eversholt Investment Limited, is a private company incorporated in the Republic of Ireland under the Companies Act 2014 and is limited by shares (see note 18). The registered office of the Company is Riverside One, Sir John Rogerson's Quay, Dublin 2, D02 X576, Ireland.

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

2 Basis of Preparation

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

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

2.1 Compliance with IFRSs

The financial statements of the Company have been prepared on the historical cost basis. These financial statements have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ("IASB") and as endorsed by the European Union ("EU"). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2021, there were no unendorsed standards effective for the financial year ended 31 December 2021 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of Eversholt Investment Limited for the financial year ended 31 December 2021 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

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

2.2 Standards and Interpretations issued by the IASB

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

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

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

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

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

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

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

2 Basis of Preparation

2.2 Standards and Interpretations issued by the IASB (continued)

At 31 December 2021, a number of standards and amendments to standards have been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2021. Subject to EU endorsement (unless otherwise stated), they are applicable for periods for the following accounting periods and are not anticipated to have a material impact on the financial statements:

Effective for accounting periods beginning on or after 1 January 2022 (EU endorsed):

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

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

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies;
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- IFRS 17 Insurance Contracts; including Amendments to IFRS 17; and
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date.

2.3 Going concern

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

As well as its own resources, the Company is able to rely on financial support and access cash generated from other members of the Security Group, to the extent necessary, under the terms of the financing arrangements with lenders. In relation to the Security Group, the Directors have considered: its forecasts and projections; current financial resources (including cash of £225,064,000 (2020: £81,534,000) and undrawn committed borrowing facilities of £600,000,000 as at 31 December 2021 (2020: £600,000,000 undrawn)); projected performance against financial covenants; the high level of forecast revenue underpinned by existing lease agreements; the legal arrangements in place in the event of an operator default and the extent to which the UK Government is the "operator of last resort" in such circumstances; and potential mitigating actions. Multiple scenarios were run against the most recent forecasts as well as assessing the level of forecast revenue that would need to be lost before the Security Group breached any of its borrowing covenants.

Eversholt UK Rails (Holding) Limited has provided a letter of support to enable the Company to meet its liabilities as they fall due and to carry on their business for a period of at least 12 months following the date of approval of the financial statements.

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 under the heading COVID-19.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

3 Summary of significant accounting policies

The principal accounting policies adopted are set out below and have been applied consistently to all years presented in these financial statements.

3.1 Finance income and expense

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

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

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

Finance expense also includes interest payable in relation to derivative instruments and overdue tax settlements.

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

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

3.3 Income tax

Deferred tax is calculated using the tax rates expected to apply in the financial 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 financial year. Deferred tax assets and liabilities are offset if, and only if:

- (a) there is a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income tax levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities that intended to either settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

3.4 Dividend income

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

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

3 Summary of significant accounting policies

3.5 Foreign currencies

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

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

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

3.6 Subsidiaries

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

3.7 Financial instruments

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

Classification and measurement

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

The Company holds the following classes of financial instruments:

Trade and other receivables

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

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

Cash and cash equivalents

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

Financial liabilities

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

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Impairment of financial assets

Allowance for lifetime expected credit losses (“ECL”) is recognised for Trade receivables which result from transactions within the scope of IFRS 15 and which do not contain a significant financing component.

12 month ECL allowance is carried for other financial assets carried at amortised cost where the credit risk has not increased significantly since the initial recognition. Where credit risk has increased significantly, lifetime ECL allowance will be carried.

Financial assets for which there is objective evidence of impairment, are considered to be in default or otherwise credit-impaired for disclosure purposes.

Financial assets (and the related impairment allowances) are written off, either partially or in full, when there is no realistic prospect of recovery. The amounts written off reflect the proceeds from realisation of any collateral underpinning the asset.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Determination of fair value

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

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

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

3.8 Statement of cash flows

The Statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under “Operating activities”, movements in intercompany balances are shown under the heading of “Financing activities”.

3.9 Share capital

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

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

3.10 Preference shares

Preference shares issued by the Company are classified as a liability where the holder of these shares has a fixed and variable entitlement to a dividend. The dividend payable is recorded within finance expense. Preference shares issued by its subsidiary, European Rail Finance Holdings Limited are included within its cost of investment in subsidiaries. The dividend receivable on preference shares is recorded within finance income.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

3 Summary of significant accounting policies (continued)**3.11 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.

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

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

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

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

Investment in subsidiaries

The carrying value of the Company's investment in its subsidiaries is assessed for indications of impairment at the end of each reporting period. If such indication exists, recoverable amount for the investment is estimated based on the projected future cashflows accruing to the Company from ownership, discounted at a rate reflecting the time value of money and risks specific to the investment.

Tax

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

4 Dividends

During the financial year the Company received dividends of £97,000,000 (2020: £94,500,000) and paid dividends of £41,800,000 (2020: £46,500,000).

5 Finance income

	2021 £'000	2020 £'000
Fixed rate preference dividend	<u>495</u>	<u>495</u>

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

6 Finance expense

	2021 £'000	2020 £'000
Interest payable to Eversholt UK Rails (Holding) Limited	(47,892)	(48,023)
Interest payable to Eversholt Rail Limited	(1,367)	(2,488)
Dividend on profit participating preference shares	<u>(270)</u>	<u>(255)</u>
Finance expense in relation to financial liabilities carried at amortised cost	(49,529)	(50,766)
Other interest	<u>(42)</u>	<u>(188)</u>
	<u>(49,571)</u>	<u>(50,954)</u>

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

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

7 Administrative expense

Administrative expense includes the following:

	2021 £'000	2020 £'000
Foreign exchange gain/(loss)	2	(1)
Fees paid by Eversholt Rail Limited to the Company's auditor for the audit of the Company's annual financial statements	(10)	(9)

8 Staff numbers and costs

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

9 Directors' emoluments

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

10 Income tax credit

	Note	2021 £'000	2020 £'000
Current tax			
On current financial year profit		6,360	510
On prior financial year profit		6,573	(936)
Income tax credit		<u>12,933</u>	<u>(426)</u>
Deferred tax			
Origination and reversal of temporary differences – prior year	12	-	7,386
Change in tax rate		1,129	113
Income tax credit		<u>1,129</u>	<u>7,499</u>
Total tax credit		<u>14,062</u>	<u>7,073</u>

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

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

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

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

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

	2021 £'000	2020 £'000
Profit before tax	47,875	44,031
Taxation at corporation tax rate 19% (2020: 19%)	(9,096)	(8,366)
Change in tax rate	1,129	113
Prior financial year adjustments	6,573	6,450
Non-taxable income	18,473	18,000
Permanent difference	(3,017)	(9,124)
Income tax credit	<u>14,062</u>	<u>7,073</u>

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

11 Investments in subsidiaries

	2021	2020
	£'000	£'000
Cost at 31 December	<u>418,238</u>	<u>418,238</u>

Cost of investment in subsidiaries includes £49,500,000 investment in preference shares issued by European Rail Finance Holdings Limited.

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

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage	
				2021	2020
European Rail Finance Holdings Limited	Ordinary Shares	Ireland**	Investment	100	100
European Rail Finance Limited*	Ordinary Shares	Ireland**	Leasing	100	100
Eversholt Rail Leasing Limited*	Ordinary Shares	England***	Leasing	100	100
Eversholt Rail Holdings (UK)* Limited	Ordinary Shares	England***	Investment	nil	nil
Eversholt Rail Limited*	Ordinary Shares	England***	Management services	100	100
Eversholt Depot Finance Limited*	Ordinary Shares	England***	Leasing	100	100
Eversholt Finance Holdings Limited*	Ordinary Shares	England***	Investment	100	100
Eversholt Funding plc*	Ordinary Shares	England***	Financing	100	100
European Rail Finance (2) Limited*	Ordinary Shares	Ireland**	Investment	100	100

* Indirect subsidiaries

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

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

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

12 Deferred tax

The Company's deferred tax asset of £9,592,000 (2020: £8,463,000) relates to corporation tax losses carried forward in the Company.

The movement in the deferred tax asset during the current and prior year is as follows:

	£'000
At 1 January 2020	964
Prior year adjustment	7,386
Effect of change in tax rate	113
At 31 December 2020	<u>8,463</u>
Prior year adjustment	-
Effect of change in tax rate	1,129
At 31 December 2021	<u>9,592</u>

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

12 Deferred tax (continued)

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 Company carried forward its 2019 tax losses for utilisation against future profits. In the 2019 financial statements they were surrendered as group relief to a fellow group company. This change resulted in the prior year adjustment of £7,386,000 in 2020.

In assessing the recoverability of deferred tax assets, the Company will consider the extent to which it is probable that there will be sufficient taxable profit in the future to allow the benefit of part or all of the deferred tax asset to be utilised. In assessing this, the Company will have regard to internal profit projections and budgets and related tax impacts, as well the amount and timing of reversal of timing differences giving rise to deferred tax liabilities at the Statement of financial position.

The Company has an unrecognised deferred tax asset of £nil at 31 December 2021 (31 December 2020: £9,124,000 in relation to interest expense disallowed for tax purposes in the financial year under the Corporate Interest Restriction (CIR) rules). Adjusted for movements up to the date of transfer, a CIR restriction of £9,107,000 has been re-allocated to Eversholt Rail Leasing Limited during 2021.

13 Trade and other receivables

	2021 £'000	2020 £'000
Dividends receivable	<u>42</u>	<u>42</u>
	42	42

14 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2021 £'000	2020 £'000
Bank accounts	<u>24</u>	<u>30</u>

15 Trade and other payables

	2021 £'000	2020 £'000
Accruals	<u>238</u>	<u>192</u>

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

16 Borrowings

	2021 £'000	2020 £'000
Current		
Eversholt UK Rails (Holding) Limited	340,562	340,562
Profit participating preference shares	<u>87</u>	<u>82</u>
	<u>340,649</u>	<u>340,644</u>
Non-current		
Eversholt Rail Limited	29,402	42,173
Profit participating preference shares	<u>2,500</u>	<u>2,500</u>
	<u>31,902</u>	<u>44,673</u>
	<u>372,551</u>	<u>385,317</u>

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

The Company and Eversholt UK Rails (Holding) Limited (the "Parent") are members of the Security Group. All members of the Security Group are jointly and severally liable for the obligations of each member of the Security Group under the Financing Documents.

The loan between the Company and the Parent is repayable on demand. As both the Company and the Parent are members of the Security Group, such a payment is permitted under the terms of the Financing Documents. However, the terms of the Financing Documents would restrict the Parent's use of the proceeds.

The activities of the Security Group are, in part, funded through a subordinated loan agreement between Eversholt UK Rails Limited (as lender) and the Parent (as borrower).

16.1 Replacement of LIBOR as an interest rate benchmark

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

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

17 Reconciliation of liabilities arising from financing activities

31 December 2021	As at 31 December 2020 £'000	Cash Flows payments £'000	Non-cash finance expense £'000	As at 31 December 2021 £'000
Financing activities attributable to:				
Liabilities				
Profit participating preference shares	2,582	(265)	270	2,587
Eversholt Rail Limited	42,173	(14,138)	1,367	29,402
Eversholt UK Rails (Holding) Ltd	340,562	(47,892)	47,892	340,562
	<u>385,317</u>	<u>(62,295)</u>	<u>49,529</u>	<u>372,551</u>
31 December 2020	As at 31 December 2019 £'000	Cash Flows payments £'000	Non-cash finance expense £'000	As at 31 December 2020 £'000
Financing activities attributable to:				
Liabilities				
Profit participating preference shares	2,582	(255)	255	2,582
Eversholt Rail Limited	55,240	(15,555)	2,488	42,173
Eversholt UK Rails (Holding) Ltd	340,562	(48,023)	48,023	340,562
	<u>398,384</u>	<u>(63,833)</u>	<u>50,766</u>	<u>385,317</u>

18 Share capital

	2021 £'000	2020 £'000
Authorised		
100,000 Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Issued, allotted, called up and fully paid		
12,000 Ordinary shares of £1 each	<u>12</u>	<u>12</u>

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

Additionally, the Company has authorised, issued and fully paid 2,500,000 profit participating preference shares of £1 each classed as borrowings.

19 Fair value of financial assets and liabilities

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

20 Risk management

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

Sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 3.11.

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

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

20 Risk management (continued)

20.1 Capital risk management

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

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

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

20.2 Market risk management

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

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

Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase in intercompany interest expense of £6,000 (2020: £11,000), an increase in cash deposit interest received of £nil (2020: £160) and an increase in dividend payable on profit participating preference shares of £13,000 (2020: £13,000) for the financial year. The sensitivity analysis is applied to the borrowing or lending rate and performed on the monthly balance of the relevant financial instrument and represents a reasonable approximation of possible change.

20.3 Credit risk management

Credit risk is the risk of financial loss if a counterparty fails to meet its obligations under a contract.

The Company monitors exposure to trade and other receivables, and the banks holding the Company's cash and cash equivalents 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 assessments as to whether there has been 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;
- 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. 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.

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

20 Risk management (continued)**20.3 Credit risk management (continued)**

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

In light of the above, the Company has determined that no ECL allowance is required in relation to its trade and other receivables or cash and cash equivalents. 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.

20.4 Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. Cash is managed on a consolidated basis across the Group which enables the Company to borrow funds from another group undertaking to meet any shortfall. Conversely, the Company lends any surplus funds to other group undertakings. Liquidity is further under-pinned by the ability of certain group undertakings to borrow under a £600,000,000 revolving credit facility which matures on 4 November 2023 and lend proceeds to the Company.

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

Undiscounted cash flows related to the financial assets and financial liabilities are analysed below by their contractual due date:

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2021						
Financial assets						
Amortised cost						
Trade and other receivables	42	42	-	42	-	-
Cash and cash equivalents	24	24	24	-	-	-
	<u>66</u>	<u>66</u>	<u>24</u>	<u>42</u>	<u>-</u>	<u>-</u>
Financial liabilities						
Amortised cost						
Trade and other payables	238	238	-	238	-	-
Borrowings	372,551	372,551	340,562	87	29,402	2,500
	<u>372,789</u>	<u>372,789</u>	<u>340,562</u>	<u>325</u>	<u>29,402</u>	<u>2,500</u>
Total financial instruments	(372,723)	(372,723)	(340,538)	(283)	(29,402)	(2,500)
31 December 2020						
Financial assets						
Amortised cost						
Trade and other receivables	42	42	-	42	-	-
Cash and cash equivalents	30	30	30	-	-	-
	<u>72</u>	<u>72</u>	<u>30</u>	<u>42</u>	<u>-</u>	<u>-</u>
Financial liabilities						
Amortised cost						
Trade and other payables	192	192	-	192	-	-
Borrowings	385,317	385,317	340,562	82	42,173	2,500
	<u>385,509</u>	<u>385,509</u>	<u>340,562</u>	<u>274</u>	<u>42,173</u>	<u>2,500</u>
Total financial instruments	(385,437)	(385,437)	(340,532)	(232)	(42,173)	(2,500)

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

20 Risk management (continued)

20.5 Investment in subsidiaries

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

21 Related-party transactions

21.1 Identity of related parties

The Company has a related party relationship with its Directors (refer page 2) and with its fellow group undertakings of the Eversholt UK Rails Group, namely:

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

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

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

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

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and which the Company is a member of, is UK Rails S.A.R.L..

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

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

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

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

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

Notes to the annual financial statements (continued)

for the financial year ended 31 December 2021

21 Related-party transactions (continued)

21.2 Transactions with related parties

The Company has an investment in preference shares issued by European Rail Finance Holdings Limited (note 11), as well as loan accounts with fellow group undertakings, including its immediate parent, more fully described in note 16. Interest on this investment and these accounts is more fully described in notes 5 and 6.

22 Contingent liabilities

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

23 Subsequent events

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