Eversholt Rail Leasing Limited

Annual report and financial statements

for the year ended 31 December 2021

Registered No: 02720809

Annual report and financial statements

for the year ended 31 December 2021

Contents

Strategic report
for the year ended 31 December 2021

Business review

Eversholt Rail Leasing Limited (the "Company") generates income from the leasing of rolling stock to train and freight operating companies in the UK.

The Company forms part of the Eversholt UK Rails Group (the "Group") more fully described in note 27. The Company also forms part of the group of companies (the "Security Group") that are bound by the terms of the financing arrangements established on 4 November 2010 (the "Financing Documents") for the debt raised by Eversholt Funding plc, a fellow Security Group company. The Security Group comprises the Group excluding Eversholt UK Rails Limited.

In the year 2021, the Company generated a profit of £18,652,000 (2020: £23,817,000). As at 31 December 2021 the Company had net assets of £144,248,000 (2020: £126,556,000). During the year the Company incurred capital expenditure of £21,527,000 (2020: £80,576,000) in relation to its programme of new build rolling stock and investments in upgrades to existing fleets.

Eversholt Rail Limited, a subsidiary company, provides asset management and administrative services to the Company, charging an annual management fee.

The Company continues to be funded principally by loans from a group undertaking, Eversholt Rail Limited, together with equity from its immediate parent.

The Company has no employees.

Risk management

The Company is subject to the risk management objectives and policies of the Group. The Company shares a number of principal risks and uncertainties as disclosed in the Annual report and financial statements of Eversholt UK Rails Limited (the parent company of the Group and also referred to as the "Parent"). These relate to economic conditions, political and regulatory matters, rail franchising competition, rail technology and safety and compliance with laws and regulation. Details of these and related mitigations are set out in the aforementioned financial statements.

In addition to these, the Company carries capital, liquidity, credit and market risks together with residual value risks.

The risks relevant to the Company and analysis of the exposure to such risks, are set out in note 23 of the financial statements.

The Company's return from operating leases is dependent upon its management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the lease terms (the residual values) differ from those projected at the inception of the leases. The Company regularly monitors residual value exposure by reviewing the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let assets at the end of their current lease terms. Provision is made to the extent that the carrying values of leased assets exceed the recoverable value.

The Group has a specialist in-house inspection team which considers whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis. The asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Company and the Group has an excellent knowledge of the current condition of its fleets.

The fleet performance is constantly monitored for emerging trends that might indicate that a particular fleet has developed a problem. In addition, the Company works proactively with train operators to identify opportunities to improve the performance of its fleets.

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 the Company'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 23. 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 19.

The Directors consider operating lease income and gross profit to be the key performance indicators for the Company. Operating lease income for the year was £409,733,000 (2020: £456,272,000), the decrease in operating lease rentals versus prior year is primarily due to fleet retirements. Gross profit for the year was £198,935,000 (2020: £183,698,000), the increase reflects a reduction in the cost of sales (reduced depreciation and maintenance costs reflecting fleet retirements) offsetting the reduction in operating lease income.

Corporate governance

The Company is required by The Companies (Miscellaneous Reporting) Regulations 2018 to make a statement in relation to its corporate governance practices. For the year ended 31 December 2021, the Company has adopted the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website).

The Parent, has voluntarily adopted the Wates Principles described above and has made a statement in relation to its corporate governance practices in its Annual report and financial statements for the year ended 31 December 2021 (Parent Governance Report). The Group adopts a number of governance policies and procedures on a group-wide basis, which are adopted and implemented by the subsidiaries of the Group to the extent relevant to their operations. Accordingly, your attention is drawn to the Parent Governance Report.

The paragraphs below explain how the six principals set out in the Wates report apply to the Company for the financial year reported.

Principle 1 – Purpose and leadership
The Group's strategy is to maintain our position as a leading rolling stock owner and asset manager in the UK. This is broken-down into three areas:

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

Corporate governance (continued)

Principle 1 – Purpose and leadership (continued)

- Leasing and asset managing our existing UK fleet;
- Acquisition of new and existing UK rolling stock assets; and
- Owning and acquiring UK rail related non-rolling stock assets where they complement our rolling stock portfolio.

Our corporate vision is “To defend and grow our core portfolio while embracing the green agenda”. Our strategy and vision are underpinned by our management of Environmental, Social and Governance (“ESG”) matters summarised by the following four themes:

- Innovating to support the transport decarbonisation journey;
- Leading as a responsible asset owner;
- Providing a great place to work; and
- Delivering results with integrity.

The Group has identified five shared values (aspiration, integrity, accountability, discipline and one team) that are central to the creation and maintenance of a culture within the business which empowers each member of the workforce to contribute to the successful pursuit of the Group's strategic aims, and to forge strong relationships with the Group's external stakeholders.

In pursuit of its vision, the Board of the Company (the “Board”) maintains a relentless focus on safety, validated by an external Safety Panel as explained in further detail below.

Principle 2 – Board composition

The Board comprises the Group's Chief Executive Officer, Chief Financial Officer, Client Services Director, Commercial Finance Director and Legal Director. The Group Chief Executive Officer also sits on the board of Eversholt UK Rails Limited (“Parent Board”).

The Board operates within the framework of the Group's overall strategy as set by the Parent Board. The composition and operation of the Parent Board is set out in more detail in the Parent Governance Report.

The Board considers that its size and composition is appropriate to its function as a leasing company within the Group.

Principle 3 – Director responsibilities

The Board is responsible for oversight of the Company's activities, within the strategic framework set by the Parent Board. Each Board member has a clear understanding of their respective responsibilities and their accountability for discharging this role.

The Group has adopted a formal governance matrix and business approvals framework which prescribes the scope of authority of the Chief Executive Officer and other members of the leadership team, and reserves key business decisions to an appropriate decision maker within the Group.

In addition to this, a formal policy and process for major business approvals and the control of expenditure has been adopted.

For the financial year reported, the Board was supported by the following principal operational committees of Eversholt Rail Limited:

- Business Development Committee;
- Business Process Committee;
- Operational Safety Committee;
- Risk and Compliance Committee;

Corporate governance (continued)

Principle 3 – Director responsibilities (continued)

- Treasury Committee; and
- UK Rolling Stock and Balance Sheet Committee.

In addition, the Parent Board maintains an Audit and Risk Committee and a Remuneration and HR Committee. Each committee's function and role is described below.

The Company Secretary acts as secretary to the Board and each committee. The Company Secretary ensures that relevant papers are circulated in advance of meetings to ensure informed decision-making.

Eversholt Rail Limited Board of Directors ("MaintCo Board")

The Board of Eversholt Rail Limited meets monthly to consider any matters reserved for it under the Group's delegated authority and governance matrix. It receives monthly briefings on asset safety, HR matters and financial performance. In addition, quarterly updates are provided from the leadership team and outputs from the Board's committees are presented monthly.

Business Development Committee ("BDC")

The BDC was chaired by the Stakeholder Director and comprised other members of the leadership team. It met fortnightly to undertake high-level reviews of the Group's portfolio.

Following a review of the committee structure, it was decided that the activity of the Business Development Committee would be captured by the UK Rolling Stock and Balance Sheet Committee or by the MaintCo Board, as appropriate.

Business Process Committee ("BPC")

The BPC is chaired by the Business Process Director and comprises other senior members. It meets monthly to oversee the application and operation of business systems.

Operational Safety Committee ("OSC")

The OSC is chaired by the Client Services Director and comprises other senior members. It meets monthly to oversee the effectiveness of the safety management and key controls.

Risk and Compliance Committee ("RCC")

The RCC is chaired by the Legal Director and comprises other members of the leadership team and the Head of Corporate Services. It meets monthly to oversee the management of existing and emergent risks and to ensure that appropriate systems and procedures are in place to ensure risks are properly identified, assessed, managed and reported and that the Group complies with its legal obligations (whether contractual or statutory).

Treasury Committee ("TC")

The TC is chaired by the Chief Financial Officer and comprises other members from the leadership team and other heads of departments. It meets monthly and is responsible for the management and control of the financial risks in accordance with an internal treasury policy.

UK Rolling Stock and Balance Sheet Committee ("UKRSBS")

The UKRSBS is chaired by the Chief Financial Officer and comprises the members of the leadership team and the Head of Corporate Services. It meets fortnightly to oversee a range of operational and strategic matters.

Principle 4 – Opportunity and risk

Opportunities

For the financial year reported, the UKRSBS and BDC were the principal forums for the assessment of strategic opportunities, which were considered as part of their scheduled meetings. Identified opportunities were considered at Board level where required by the governance matrix and business approvals framework.

Corporate governance (continued)

Principle 4 – Opportunity and risk (continued)

Business risk

The Board is responsible for the identification and management of risk within the Company, with Group risks considered by the Parent Board. The boards are supported by a dedicated Audit and Risk Committee (“ARC”). The ARC reviews the Group's internal and external audit processes, together with the Group's principal strategic, operational and financial risks. The Committee meets at least twice a year, and more frequently as required. The ARC operates under formal terms of reference and is composed of four representatives from the Group's owners with the Chief Executive Officer, Chief Financial Officer and Legal Director being invited to attend where appropriate.

Industry-specific operational risks

The Group operates in an industry where the assessment and management of operational safety risks is of paramount importance.

The Group maintains an Operational Safety Committee (“OSC”) (referred to above) and an External Safety Panel (“ESP”).

The ESP is comprised of the Company's senior independent non-executive director, together with two representatives with significant operational experience within the UK rail industry and a further transport industry executive. The inclusion of a committee member with experience from outside the rail sector provides an independent perspective and the opportunity for the Group to learn from best practices in another transport sector.

The role of the ESP is to provide an independent forum to review the work of the OSC. It is chaired by the Company’s senior independent non-executive director and reports annually to the Parent Board on the OSC’s operation, work and ongoing effectiveness.

The ESP meets quarterly and is authorised to review the OSC's working papers. The ESP is empowered to require the OSC to undertake new or additional work to determine and address operational risks as it considers necessary.

Principle 5 – Remuneration

The Company does not have any employees. The Directors receive no additional remuneration for their role as directors of the Company in addition to their executive employment by Eversholt Rail Limited. The Parent Governance Report discusses the approach taken to executive remuneration within the Group.

Principle 6 – Stakeholders

The Group is committed to creating a diverse and inclusive environment for all those with whom it works. As such, it 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 four principal external stakeholder groups:

- Train Operating Companies (“TOCs”) and Freight Operating Companies (“FOCs”) – the Group's customers;
- industry regulators and rail services sponsors (principally the Office of Rail and Road (“ORR”), 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; and
- the Group's external lenders.

In addition, the Group's owners are a key internal stakeholder.

More broadly, the Group is aware of the environmental impact of the operation of its leased fleet and seeks to minimise this through its fleet maintenance and procurement policies, as described below.

Corporate governance (continued)

Principle 6 – Stakeholders (continued)

TOCs and FOCs

The Group operates under a formal Code of Practice (available at https://eversholtrail.co.uk/downloads/), which governs its dealings with TOCs. The Code sets out the Group's approach to the market and is designed to provide appropriate assurances for customers as to the manner in which the Group's TOC customers can expect to build constructive relationships with it.

Key provisions of the Code include commitments to:

- building long-term relationships with customers;
- support customers in providing passengers with a safe, economically efficient and reliable railway service; and
- fair and reasonable leasing terms, in particular at franchise renewal.

Amendments to the Code will be made in consultation with the ORR. The Group operates a formal complaints procedure in relation to any alleged breach of the Code.

The Group maintains regular dialogue with all TOCs (franchised and open-access), FOCs and their parent groups through a dedicated Client Services Director.

Regulators and other public bodies involved in the UK rail network

Whilst not directly regulated itself, the Group maintains a close relationship with the ORR - the independent safety and economic regulator of the UK rail industry.

The Group is committed to assisting national and regional rail sponsors, including the DfT, Transport Scotland, Transport for Wales, Transport for London, Transport for the North and Transport for the West Midlands during their respective concession award processes and throughout the operation of the rail franchises and concessions. The Group also engages with other rail stakeholders, such as Transport Focus and the Association of Community Rail Partnerships, as well as contributing to a number of cross-industry working parties.

A consistent, structured approach is applied to all the above relationships. Regular engagement at working level is complemented by senior-level reviews focused on strategic aspects, together with *ad hoc* meetings as necessary to support specific joint programmes and initiatives. During concession award processes, a dedicated, cross-disciplinary bid team led by a senior manager is established to engage with bidders and provide them with all information necessary to support their bid submissions.

Suppliers

The Group holds multiple contracts with key business and safety critical suppliers that deliver a range of services. These services help support the safe operation of the Group's trains on the railway and enhance the residual value of its fleets. Securing the right capability and capacity from the Group's supply base is critical to helping the Group manage its operational risk and enhance its reputation with its customers.

The Group takes a relationship-based approach with its suppliers, focusing on clear and timely communication. The Group holds quarterly business reviews with its key strategic suppliers. These reviews encompass a wide range of activities including health and safety, delivery performance, engineering support, future plans and provide a forum for delivering feedback from key stakeholders to the supplier. In addition to these reviews and to help support the operational needs of the business, the Group's project managers hold regular fleet reviews with suppliers and customers to ensure compliance with the particular requirements of the project and to discuss any issues either party may have that may impact delivery of these requirements.

Corporate governance (continued)

Principle 6 – Stakeholders (continued)

External lenders

The Group regularly engages with its banks and institutional investors. A key forum for dialogue with these stakeholders is the Group's annual management presentation, at which a review of the previous financial year and outlook for the coming year is shared. This provides stakeholder representatives with the opportunity to hear from the leadership team, ask questions about the business and engage in informal discussions with management. The Group also shares annual and semi-annual financial statements and investor reports detailing key events in the development of the business.

Owners

The Group maintains close relations with its shareholder with representatives of that shareholder sitting on the Board, as outlined above.

Environment and the community

The Group is committed to reducing the environmental impact of its leased fleet. All of the Group's new diesel fleets are compliant with modern engine emission legislation and its new electric fleets are fitted with regenerative braking, putting power back into the overhead line.

The Group is pursuing a series of green initiatives in relation to its fleets. These include:

- fitting a number of fleets with a driver advisory system which enables drivers to operate the train in a more power efficient way;
- ensuring that scrapping processes for life-expired rolling stock maximises the amount of recycled materials; and
- launching a new initiative to modify one of its electric fleets to fit a battery to allow it to operate on non-electrified lines, thereby eliminating the requirement to use a diesel train.

Further information on the Group's participation in industry discussions in response to the UK Government's challenge to the UK rail industry to remove all diesel-only trains by 2040 is set out in the Strategic report within the Annual report and financial statements of Eversholt UK Rails Limited for the year ended 31 December 2021.

The group recognises its responsibility towards communities and since 2013 has contributed through fundraising and donations to charities.

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

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

Section 172(1) statement

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

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

The business of the Company is the leasing of rolling stock and other assets to train and freight operating companies in the UK.

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. Maintaining a reputation for high standards of business conduct is vital and the Company expects all members of the supply chain to always act with integrity, acting openly, honestly and ethically. The Company has zero tolerance to fraud and consistently maintains effective control, oversight and scrutiny processes, executed with independence and impartiality. Integrity is underpinned with policies in relation to bribery and corruption, data protection, equality, diversity and inclusion, modern slavery, fraud and whistleblowing, each of which is reinforced through appropriate training.

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

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

These factors also drive a continuing focus on the maintenance of durable relationships with stakeholders, built on the Group's reputation with customers and suppliers. Details of the Code of Practice that sets out the basis on which the Company and the wider Group deals with customers and other stakeholders, and other methods of stakeholder engagement designed to maintain the Group's reputation for high standards of business conduct, is in the corporate governance statement within the Corporate governance section of this Strategic report.

During 2021, the Board has made decisions in relation to rolling stock re-leasing and investment opportunities.

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 detailed under the Corporate governance section of this Strategic report.

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

- TOCs and FOCs the Company's customers;
- industry regulators and rail services sponsors;
- the Company's suppliers – train manufacturing companies and other suppliers who supply and maintain rolling stock;
- 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 in the corporate governance statement set out within the Annual report and financial statements of the Company for the year ended 31 December 2021.

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

Section 172(1) statement (continued)

Impact on the environment and the community

The Company is committed to reducing the environmental impact of its leased fleet. Further information on the steps taken to reduce the environmental impact of the Group's operations, and on the Group's participation in industry discussions in response to the UK Government's challenge to the UK rail industry to remove all diesel-only trains by 2040, are set out in the corporate governance statement set out within the Annual report and financial statements of Eversholt UK Rails Limited for the year ended 31 December 2021 ("Parent Governance Statement").

The Company strives to make a positive impact in the community. Further information on the Group's community and charitable activities in which the Company directly participates is set out in the Parent Governance Statement.

Approved by the Board and signed on its behalf by:

M B Kenny
Director

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

28 February 2022

Directors' report

for the year ended 31 December 2021

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

Directors

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

M B Kenny
A J Wesson
D Spence
P M Sutherland
L R Warsop

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

Business environment

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

Risk management and Corporate governance

Details of the Company's risk management and Corporate governance arrangements are set out in the Strategic report.

Fostering business relationships

The Company recognises the importance of managing strong relationships with its stakeholders in order to create sustainable long-term value, and the Board encourages active dialogue and transparency with all of its stakeholder groups. Further information is included in the Strategic report and falls 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. Meeting energy requirements of the Company's rolling stock assets is the primary responsibility of the Company's customers, being train and freight operating companies. The Company does not therefore consume any fuel/electricity/gas in relation to those assets;
- the only company within the Eversholt UK Rails Group that consumed energy is Eversholt Rail Limited, from which the Company had received services during the year. Information required by the Regulations in respect of Eversholt Rail Limited is set out in its Annual report and financial statements for the year ended 31 December 2021.

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

Future developments (continued)

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 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

No dividend was paid in the year ended 31 December 2021 (2020: £nil).

Going concern basis

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

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

The Directors are satisfied that under all reasonable sensitivities that the Company has adequate resources to continue in existence for the period of at least 12 months from the date when the financial statements are authorised for issue.

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

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

Disclosure of information to the auditor

Each person who is a director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Risk management and Corporate governance

Details of the Company's risk management and Corporate governance arrangements are set out in the Strategic report.

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

Approved by the Board and signed on its behalf by:

M B Kenny
Director

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

28 February 2022

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Report Standards ("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". Refer to note 2 for more details. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

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

M B Kenny

Director

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

Independent Auditor’s Report to the Members of Eversholt Rail Leasing Limited

for the year ended 31 December 2021

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Eversholt Rail Leasing Limited (the ‘Company’):

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

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of cash flows;
- the statement of changes in equity; and
- the related notes 1 to 29.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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; and
- Review of the disclosures made in the financial statements to determine whether they appropriately present the key assumptions the directors have made.

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

for the year ended 31 December 2021

Conclusions relating to going concern (continued)

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

for the year ended 31 December 2021

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

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

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

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

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

We discussed among the audit engagement team including relevant internal specialists such as tax and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address that is described below:

- Impairment of long-lived assets: We have identified a significant audit risk around the useful economic lives of rolling stock. These assets form a large proportion of the balance sheet and their utilisation is contingent upon winning lease contracts with Train Operating Companies ("TOCs"). We have pinpointed the risk to the re-leasing assumptions utilised. Management form key judgements related to each fleet's re-leasing opportunities, estimated future rental income and associated costs. We have considered the cash flow models and scenarios modelled by management. We have challenged key judgements related to each re-leasing opportunities, estimated future rental income and associated costs.

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

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

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

for the year ended 31 December 2021

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

- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with relevant tax authorities.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Suzanne Gallagher

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

28 February 2022

Income statement
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue			
Operating lease income	*4*	**409,733**	456,272
Other income	*4*	**1,489**	1,747
Total revenue		**411,222**	458,019
Cost of sales	*5*	**(212,287)**	(274,321)
Gross profit		**198,935**	183,698
Finance expense	*6*	**(111,533)**	(122,306)
Net fair value gain on derivative financial instruments	*15*	**-**	2
Administrative expense	*7*	**(23,075)**	(22,819)
Gain on disposal of property, plant and equipment		**1,662**	488
Profit before tax		**65,989**	39,063
Income tax charge	*9*	**(47,337)**	(15,246)
Profit for the year		**18,652**	23,817

There were no discontinued or discontinuing operations during the year.

The notes on pages 23 to 47 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 for the year		**18,652**	23,817
Other comprehensive (expense)/income			
Effective portion of changes in fair value of cash flow hedges	*15*	**-**	(831)
Realised (gain)/loss on cash flow hedges to property, plant and equipment	*15*	**(1,187)**	11,446
Income tax on Other comprehensive income	*15, 20*	**227**	(1,832)
Total other comprehensive (expense)/income		**(960)**	8,783
Total comprehensive income for the year		**17,692**	32,600

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			
Property, plant and equipment	*11*	**2,331,073**	2,485,629
Investments in subsidiaries	*14*	**149,319**	149,319
		2,480,392	2,634,948
Current assets			
Trade and other receivables	*13*	**7,225**	11,927
Current tax		**-**	2,528
Cash and cash equivalents	*12*	**7,134**	16,438
		14,359	30,893
Total assets		**2,494,751**	2,665,841
Liabilities and equity			
Current liabilities			
Trade and other payables	*16*	**43,595**	37,192
Current tax		**17,869**	-
Other liabilities	*17*	**11,290**	18,206
Borrowings	*18*	**65,064**	68,363
		137,818	123,761
Non-current liabilities			
Other liabilities	*17*	**191,273**	117,357
Borrowings	*18*	**1,918,910**	2,216,374
Deferred tax	*20*	**102,502**	81,793
		2,212,685	2,415,524
Total liabilities		**2,350,503**	2,539,285
Equity			
Share capital	*21*	**50,000**	50,000
Hedging reserve	*15*	**153**	1,113
Retained earnings		**94,095**	75,443
Total equity		**144,248**	126,556
Total equity and liabilities		**2,494,751**	2,665,841

The notes on pages 23 to 47 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 02720809

Statement of cash flows
as at 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flow from operating activities			
Profit before tax		**65,989**	39,063
Adjustments for:			
- Depreciation	*5*	**138,173**	192,321
- Write-down of rolling stock	*5*	**20,994**	11,912
- Gain on disposal of property, plant and equipment		**(1,662)**	(488)
- Finance expense	*6*	**111,533**	122,306
- Gain on fair value of derivative financial instruments	*15*	**-**	(2)
Operating cash flow before changes in working capital		**335,027**	365,112
Increase/(decrease) in trade and other receivables	*13*	**4,702**	(5,108)
Increase in other liabilities	*17*	**67,000**	5,199
Increase in trade and other payables	*16*	**6,403**	12,451
Cash flow generated by operating activities		**413,132**	377,654
Payment in respect to group relief		**(8,528)**	(5,553)
Tax receipts		**2,524**	-
Net cash generated by operating activities		**407,128**	372,101
Cash flow from investing activities			
Acquisition of property, plant and equipment		**(22,682)**	(68,976)
Proceeds from disposal of property, plant and equipment		**18,578**	488
Net cash utilised in investing activities		**(4,104)**	(68,488)
Cash flow from financing activities			
Term loan repaid to Eversholt Rail Limited	*19*	**(118,759)**	(118,759)
Bank loan repaid	*19*	**(6,127)**	-
Finance expense paid		**(1,050)**	(2,836)
Movement in intercompany loan with Eversholt Rail Limited	*19*	**(286,392)**	(216,352)
Net cash utilised in financing activities		**(412,328)**	(337,947)
Net movement in cash and cash equivalents		**(9,304)**	(34,334)
Net foreign exchange difference	*15*	**-**	(1,287)
Cash and cash equivalents at the beginning of the year		**16,438**	52,059
Cash and cash equivalents at the end of the year	*12*	**7,134**	16,438

Statement of changes in equity

for the year ended 31 December 2021

	Note	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020		50,000	(7,670)	51,626	93,956
Profit for the year		-	-	23,817	23,817
Effective portion of changes in fair value of cash flow hedges	*15*	-	(831)	-	(831)
Realised loss on cash flow hedges to property, plant and equipment	*15*	-	11,446	-	11,446
Income tax on Other comprehensive income	*15,20*	-	(1,832)	-	(1,832)
Total comprehensive income		-	8,783	23,817	32,600
Balance at 31 December 2020		**50,000**	**1,113**	**75,443**	**126,556**
Profit for the year		**-**	**-**	**18,652**	**18,652**
Realised gain on cash flow hedges to property, plant and equipment	***15***	**-**	**(1,187)**	**-**	**(1,187)**
Income tax on Other comprehensive income	***15,20***	**-**	**227**	**-**	**227**
Total comprehensive (expense)/income		**-**	**(960)**	**18,652**	**17,692**
Balance at 31 December 2021		**50,000**	**153**	**94,095**	**144,248**

No dividend was paid during the year (2020: £nil).

Notes to the annual financial statements

for the year ended 31 December 2021

1 General Information

Eversholt Rail Leasing Limited is a private company incorporated in England and Wales and is limited by shares (see note 21). 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.

The Company is exempt from the requirement to prepare consolidated financial statements by Section 401 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking.

2.1 Compliance with IFRSs

The financial statements of Eversholt Rail Leasing Limited have been prepared on the historical cost basis except for the derivative financial instruments measured at fair value. These financial statements have been prepared in accordance with IFRSs issued by the IASB or IFRIC and endorsed for use in the UK by the UK Endorsement Board, referred to as "'UK-adopted IFRS", in conformity with the requirements of the Companies Act 2006.

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

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

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

2.2 Standards and Interpretations issued by the IASB

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

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

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

  i) the effective interest rate on floating-rate financial instruments is adjusted;

  ii) the formal designation of hedge relationships is amended and hedge accounting will continue; and

  iii) the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges is deemed to be based on the alternative benchmark rate.

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

2 Basis of Preparation (continued)

2.2 Standards and Interpretations issued by the IASB (continued)

- 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.

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

Effective for accounting periods beginning on or after 1 January 2022 (all UK approved):

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

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

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

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

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

2.3 Going concern

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

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

The Directors are satisfied that under all reasonable sensitivities that the Company has adequate resources to continue in existence for the period of at least 12 months from the date when the financial statements are authorised for issue.

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

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

3 Summary of significant accounting policies

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

3.1 Accounting for lease transactions

The Company as lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee. Otherwise, the lease is classified as an operating lease.

The Company enters into operating lease arrangements as lessor with respect to rolling stock and other railway assets, classified as Property, plant and equipment (note 11).

Rental income from operating leases is recognised on a straight-line basis over the lease term of the related lease. Initial direct costs incurred in negotiation and arranging an operating lease are added to the initial carrying amount of the lease asset and recognised straight-line over the lease term.

Amounts due from lessees under a finance lease are recognised, at an amount equal to the Company's net investment in the leases. Finance lease income is allocated to periods so as to reflect a constant periodic rate of return on the Company's net investment in respect of the lease.

3.2 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 Finance income and expense

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.4 Income tax

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

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

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

3.5 Foreign currencies

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

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

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

3.6 Property, plant and equipment

In the normal course of business, rolling stock and other railway assets are recognised at cost and are depreciated on a straight-line basis over their useful economic lives to their estimated residual value. The useful economic life depends on the class of vehicle and type of asset and ranges from 20 to 40 years. Useful economic lives and carrying values are reviewed at least annually.

In relation to the construction of rolling stock and other railway assets:

i) Progress payments paid to third parties are capitalised.

ii) Interest costs are capitalised to the extent that they are incurred in relation to borrowings, which are attributable to the expenditure necessary to progress the construction of assets.

iii) Assets in the course of construction are not depreciated until they are available for use.

The depreciation charge is included in the Income statement as detailed in note 5.

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

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

At each reporting date, the Company reviews the carrying value of its rolling stock and railway assets to determine whether there is any indication that the assets have suffered an impairment loss. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

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

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

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

3.7 Subsidiaries

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

3.8 Financial instruments

Financial assets and financial liabilities are recognised in the 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Classification and measurement (continued)

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.

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; and
- Lease receivables, which are outside the scope of IFRS 9 for classification and measurement purposes but in the scope for impairment.

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.

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

Restructuring/renegotiation of financial instruments

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

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

Offsetting financial assets and financial liabilities

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

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

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Derivatives and hedge accounting

The Company can enter into a variety of derivative financial instruments to manage its exposure to foreign exchange 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 hedged item is recognised in the Income statement.

When the hedged item relates to a capital expenditure transaction and the hedging relationship ends, the hedging gain or loss recognised in Other comprehensive income is amortised to Property, plant and equipment over the life of the hedged item. If the hedging instrument is terminated, related amounts remain in the hedging reserve provided that the hedged future cash flows are still expected to occur.

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

Foreign currency denominated non-derivative financial assets can also be used to manage exposure to foreign exchange rate fluctuations. Where qualifying for hedge accounting, the effective part of exchange differences arising on translating the carrying value of financial assets will be recognised in Other comprehensive income, which is accounted for in the Hedging reserve. Events affecting the hedge relationship are accounted for in the manner as described when the hedging instrument is a derivative.

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 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Determination of fair value (continued)

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.

3.9 Statement of cash flows

The Statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under 'Operating activities', movements in intercompany balances are shown under the heading of 'Financing activities'. Such movements arise ultimately from the Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

3.10 Share capital

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

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

3.11 Maintenance

Maintenance costs are expensed as incurred.

3.12 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.

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

Following is the critical estimate and assumption 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.

Value in use of rolling stock assets

The Company undertakes a review of residual values of its rolling stock assets at least annually.

If there is indication of impairment of a specific rolling stock fleet, a loss will be recognised to reduce the carrying value to its recoverable value, as determined by its value in use. Value in use is calculated based on the forecast rentals which the assets will generate over their remaining useful economic lives, having regard to the fleet's current and future prospects under a range of re-leasing scenarios. Future rentals are forecast based on past performance, expectation of future performance and market information. Forecast future rentals are discounted assuming a pre-tax discount rate incorporating the time value of money and asset specific risks.

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

3 Summary of significant accounting policies (continued)

3.12 Use of judgements, estimates and assumptions (continued)

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

Value in use of rolling stock assets (continued)

Recoverable value is sensitive to changes in the assumptions described above. The table below illustrates the impact of changes in assumptions on recoverable value for the Company's rolling stock fleet as a whole:

	Recoverable value Increase/(decrease)	
	2021 £'000	**2020 £'000**
End of final lease term		
1 year increase	**113,231**	90,607
1 year reduction	**(120,450)**	(87,871)
Projected rentals:		
1% increase	**24,170**	27,405
1% reduction	**(24,170)**	(27,405)
Discount rate:		
0.1% increase	**(25,463)**	(29,129)
0.1% reduction	**25,850**	29,579

The assumptions in relation to the above are the only key areas 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 from contracts with customers and suppliers

Revenue information

The Company generates revenue wholly in the UK and primarily from the rental of rolling stock assets under operating leases. Total income can be analysed as follows:

	2021 £'000	**2020 £'000**
Operating lease rental income	**409,733**	456,272
Other income	**1,489**	1,747
	411,222	458,019

5 Cost of sales

	2021 £'000	**2020 £'000**
Depreciation	**(138,173)**	(192,321)
Write-down of rolling stock (see note 11)	**(20,994)**	(11,912)
Maintenance cost	**(53,120)**	(70,088)
	(212,287)	(274,321)

6 Finance expense

	2021 £'000	**2020 £'000**
Interest payable to Eversholt Rail Limited	**(110,483)**	(119,528)
Finance charges payable to Eversholt Funding plc	**(455)**	(690)
Bank interest	**(59)**	-
Other interest	**(536)**	(2,088)
	(111,533)	(122,306)

Finance expenses represent interest charged in relation to financial liabilities carried at amortised cost.

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

7 Administrative expense

Administrative expense includes:

	2021 £'000	2020 £'000
Management fees payable to Eversholt Rail Limited	**(22,639)**	(20,744)
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 (2020: £nil).

8 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.

9 Income tax charge

	2021 £'000	2020 £'000
Current tax		
UK Corporation tax on current year profit	**(19,661)**	(9,899)
Adjustment in respect of prior year	**(6,740)**	2,762
	(26,401)	(7,137)
Deferred tax		
Origination and reversal of temporary differences	**3,171**	2,477
Adjustment in respect of prior year	**(503)**	(1,923)
Change in tax rate	**(23,604)**	(8,663)
	(20,936)	(8,109)
Income tax charge	**(47,337)**	(15,246)

The Company has recognised a prior year tax charge of £6,740,000. This includes £9,107,000, being the effect of interest expense disallowed for tax purposes before 2021 under the Corporate Interest Restriction ("CIR") rules, together with other adjustments relating to prior years. The CIR restriction has been re-allocated to the Company from Eversholt Investment Limited during 2021.

The UK tax rate applied to the profits in the period was 19% (2020: 19%). Corporation tax has been calculated by reference to the current tax rate of 19%. Deferred tax is calculated by reference to the tax rates that apply when the corresponding deferred tax asset is realised or deferred tax liability settled. The applicable rates are those rates that have been enacted or substantively enacted by 31 December 2021 and are as follows:

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

This has led to the tax charge attributable to "change in tax rate" shown in the above analysis.
The following table reconciles the tax charge which would apply if all profits had been taxed at the UK corporation tax rate:

	2021 £'000	2020 £'000
Profit before tax	**65,989**	39,063
Taxation at corporation tax rate of 19% (2020: 19%)	**(12,538)**	(7,422)
Change in tax rate	**(23,604)**	(8,663)
Adjustment in respect of prior year	**(7,243)**	839
Unrecognised tax attribute (note 20)	**(3,952)**	-
Income tax charge	**(47,337)**	(15,246)

9 Income tax charge (continued)

In addition to the amount charged to the Income statement, deferred tax relating to components of other comprehensive income has resulted in a gain of £227,000 recognised in total comprehensive income (2020: £1,832,000 loss).

10 Dividends

No dividend was paid to European Rail Finance Holdings Limited in the year ended 31 December 2021 (2020: £nil).

The Company did not receive any dividend income in the year ended 31 December 2021 (2020: £nil).

11 Property, plant and equipment

	Rolling stock and other railway assets £'000
Cost	
Balance at 1 January 2020	3,255,350
Additions	80,576
Disposals	(39,420)
Balance at 31 December 2020	**3,296,506**
Additions	**21,527**
Disposals	**(122,418)**
Balance at 31 December 2021	**3,195,615**
Accumulated depreciation and write-downs	
Balance at 1 January 2020	646,064
Charge for the year	192,321
Write-down	11,912
Disposals	(39,420)
Balance at 31 December 2020	**810,877**
Charge for the year	**138,173**
Write-down	**20,994**
Disposals	**(105,502)**
Balance at 31 December 2021	**864,542**
Carrying value at 31 December 2021	**2,331,073**
Carrying value at 31 December 2020	2,485,629

The cost of rolling stock and other railway assets at 31 December 2021 includes capitalised interest of £45,282,000 (2020: £45,250,000). The capitalisation rate used is the rate of interest attaching to the Company's borrowings attributable to the acquisition of rolling stock.

The depreciation charge is included within cost of sales in the Income statement. Following a review of recoverable values, the Company has written down the net book value of rolling stock by £20,994,000 (2020: £11,912,000). This reflects the extent to which the net book value of rolling stock exceeds recoverable value. The write-down is included as part of the accumulated depreciation.

2021 additions includes a credit from other comprehensive income (being a realised gain on cashflow hedges) of £1,187,000 (2020: £11,446,000 debit) and bank loan capitalised interest of £32,000 (2020: £96,000) together with capitalisation of other interest of £nil (2020: £57,000).

All fixed assets are subject to operating lease arrangements or are available to lease under such arrangements.

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

12 Cash and cash equivalents

	2021 £'000	2020 £'000
Bank accounts	**7,134**	16,438

13 Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables	**7,225**	11,927

Trade receivables includes £4,179,000 (2020: £5,218,000) in relation to operating lease rentals that have been accrued and for which a 12 month expected credit loss allowance of £622,000 (2020: £353,000) is carried. During the year there has been an increase of £269,000 in the expected credit loss allowance (year ended 31 December 2020: £353,000). The allowance reflects a revised rental payment profile, pursuant to changes in commercial arrangements.

14 Investments in subsidiaries

	2021 £'000	2020 £'000
Cost at 31 December	**149,319**	149,319

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

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2021	Ownership Percentage 2020
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

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

Eversholt Rail Holdings (UK) Limited was dissolved on 4 February 2020. The carrying value of the investment in Eversholt Rail Holdings (UK) Limited at dissolution was £nil.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

15 Derivative financial instruments

The Company held foreign exchange forward contracts during 2020 to hedge cash flow risk associated with the fluctuations in foreign exchange rates on non-sterling payments for the purchase of new rolling stock. All such contracts were part of hedge accounting relationships and settled by 31 December 2020.

The fair values of the derivative financial instruments are as follows:

31 December 2021

	Notional Amount £'000	Fair value amount £'000	Change in fair value used for calculating hedge ineffectiveness £'000
Current liabilities			
FX forward contracts – hedge accounted	-	-	-

31 December 2020

	Notional Amount £'000	Fair value amount £'000	Change in fair value used for calculating hedge ineffectiveness £'000
Current liabilities			
FX forward contracts – hedge accounted	-	-	458

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

Movement in fair value of Derivative financial instruments

	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance as at 1 January 2021	-	-	-
Unrealised gain through the income statement			
- Hedge ineffectiveness	-	-	-
Unrealised gain through other comprehensive income	-	-	-
Balance as at 31 December 2021	-	-	-
Balance as at 1 January 2020	(458)	-	(458)
Unrealised gain through the income statement			
- Hedge ineffectiveness	2	-	2
Unrealised loss through other comprehensive income	456	-	456
Balance as at 31 December 2020	-	-	-

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

15 Derivative financial instruments (continued)

Movement in Hedging reserve

	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance as at 1 January 2021	**(1,113)**	**-**	**(1,113)**
Unrealised gain through Other comprehensive income	**-**	**-**	**-**
Revaluation of EUR cash deposits through Other comprehensive income	**-**	**-**	**-**
Release to Property, plant & equipment	**1,187**	**-**	**1,187**
Income tax on Other comprehensive income	**(227)**	**-**	**(227)**
Balance as at 31 December 2021	**(153)**	**-**	**(153)**
Balance as at 1 January 2020	7,598	72	7,670
Unrealised loss through Other comprehensive income	(456)	-	(456)
Revaluation of EUR cash deposits through Other comprehensive income	1,287	-	1,287
Release to Property, plant & equipment	(11,359)	(87)	(11,446)
Income tax on Other comprehensive income	1,817	15	1,832
Balance as at 31 December 2020	(1,113)	-	(1,113)

Hedge ineffectiveness is attributable to differences between actual and expected dates of cash flows relating to EUR denominated capital expenditure. Expected dates are established when capital commitments first arise and they are used in setting the terms of the related foreign exchange contracts.

In relation to year ended 31 December 2020:

- The designated hedges were deemed highly effective.
- Hedge ineffectiveness gain of £2,000 comprised the difference between the change in the fair value of the:
  1. hedged item used as a basis of recognising hedge ineffectiveness of £456,000 loss; and
  2. forward foreign exchange contracts used as a basis of recognising hedge ineffectiveness of £458,000 gain

The hedging reserve contains balances relating to settled derivative contracts, where the hedged future cashflows are still expected to occur.

During the year a gain of £1,187,000 (2020: £11,446,000 loss) was realised in property, plant and equipment additions; the residual gain recognised in other comprehensive income will amortise to property, plant and equipment in line with the payment profile of the hedged capital expenditure.

When foreign exchange forward contracts have settled before the committed EUR denominated capital expenditure has been incurred, related EUR cash deposits continue to hedge related commitments. Being part of a hedge accounting relationship and equal in principal to the amount of commitments, exchange differences of £nil (2020: £1,287,000) arising on translating the EUR cash deposits to sterling, are wholly recognised in the hedging reserve. These are included in the Movement in Hedging reserve table above under the heading of "Revaluation of EUR cash deposits through other comprehensive income". See note 23.4.1 for details of foreign exchange risk management.

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

16 Trade and other payables

	2021 £'000	2020 £'000
Trade and other payables	**12,126**	8,211
Rentals received in advance	**25,664**	24,480
Accruals	**5,805**	4,501
	43,595	37,192

17 Other liabilities

Other liabilities represents amounts charged to customers under current contracts in relation to their share of future rolling stock maintenance costs after the expiry of the current lease. These amounts will be paid out over the course of future leases, as yet unidentified, to future lessees who will undertake the future rolling stock maintenance. Such amounts will never be recognised as revenue in the Company's income statement and can be analysed as follows:

	2021 £'000	2020 £'000
Current	**11,290**	18,206
Non-current	**191,273**	117,357

18 Borrowings

	2021 £'000	2020 £'000
Current		
Eversholt Rail Limited (term loan)	**65,064**	62,268
Bank loan	**-**	6,095
	65,064	68,363
Non-current		
Eversholt Rail Limited (term loan)	**1,195,029**	1,260,093
Eversholt Rail Limited (intercompany loan)	**723,881**	956,281
	1,918,910	2,216,374
Total borrowings	**1,983,974**	2,284,737

The term loan with Eversholt Rail Limited is repayable on or before 1 April 2036 with capital and interest payable on a monthly basis. Interest is charged at a fixed rate plus margin (2020: fixed rate plus margin).

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).

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

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

18 Borrowings (continued)

18.1 Replacement of LIBOR as an interest rate benchmark

During 31 December 2021, the Company replaced LIBOR as the reference interest rate in its revolving credit facility as described in note 23. LIBOR has been replaced by SONIA plus an appropriate credit adjustment spread, determined at the date of change. Where arising, 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.

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	**67,986**	58,969
In more than two years but not more than five years	**946,554**	1,175,481
In more than five years	**904,370**	981,924
	1,918,910	2,216,374

19 Reconciliation of liabilities arising from financing activities

31 December 2021 Financing activities attributable to:	As at 31 December 2020 £'000	Cash Flows payments £'000	Non-cash finance expense £'000	As at 31 December 2021 £'000
Eversholt Rail Limited (term Loan)	**1,322,361**	**(118,759)**	**56,491**	**1,260,093**
Eversholt Rail Limited	**956,281**	**(286,392)**	**53,992**	**723,881**
Bank Loan	**6,095**	**(6,127)**	**32***	**-**
	2,284,737	**(411,278)**	**110,515**	**1,983,974**

* £32,000 relates to capitalised interest transferred to Property, plant and equipment (see note 11)

31 December 2020 Financing activities attributable to:	As at 31 December 2019 £'000	Cash Flows payments £'000	Non-cash finance expense £'000	As at 31 December 2020 £'000
Eversholt Rail Limited (term Loan)	1,381,790	(118,759)	59,330	1,322,361
Eversholt Rail Limited	1,112,435	(216,352)	60,198	956,281
Bank Loan	5,999	-	96*	6,095
	2,500,224	(335,111)	119,624	2,284,737

* £96,000 relates to capitalised interest transferred to Property, plant and equipment (see note 11).

20 Deferred tax

Deferred tax liabilities are offset against deferred tax assets where the relevant criteria is met (see note 3). The following is the analysis of the deferred tax balances:

	31 December 2021 £'000	31 December 2020 £'000
Deferred tax liabilities	**102,502**	81,793

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

20 Deferred tax (continued)

The following are the major deferred tax liabilities/(assets) recognised by the Company and movements thereon during the current and prior reporting year:

	Capital Allowances £000's	Tax losses £000's	Fair value on derivatives £000's	Total £000's
At 1 January 2020	75,503	(2,071)	(1,580)	71,852
(Credit)/charge to Income statement	(6,324)	3,847	-	(2,477)
Debit to Other comprehensive income	-	-	2,017	2,017
Effect of change in tax rate:				
- Income statement	8,907	(244)	-	8,663
- Credit Other comprehensive income	-	-	(185)	(185)
Prior year adjustments	4,137	(2,223)	9	1,923
At 31 December 2020	**82,223**	**(691)**	**261**	**81,793**
Credit to Income statement	**(3,171)**	**-**	**-**	**(3,171)**
Credit to Other comprehensive income	**-**	**-**	**(227)**	**(227)**
Effect of change in tax rate:				
- Income statement	**23,604**	**-**	**-**	**23,604**
- Credit Other comprehensive income	**-**	**-**	**-**	**-**
Prior year adjustments	**(188)**	**691**	**-**	**503**
At 31 December 2021	**102,468**	**-**	**34**	**102,502**

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

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

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

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

The Company has an unrecognised deferred tax asset of £17,183,000 (2020: £nil) in relation to interest expense disallowed for tax purposes in the financial year under the CIR rules. The CIR restriction includes a reallocation from Eversholt Investment Limited during 2021 (£9,107,000), together with a current year disallowance of £3,952,000 and the effect of a change in tax rate (£4,124,000).

21 Share capital

	2021 £'000	2020 £'000
Authorised, allotted, called up and fully paid		
50,000,002 Ordinary shares of £1 each	**50,000**	50,000

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

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

22 Capital commitments

In respect of rolling stock capital expenditure:

	2021 £'000	2020 £'000
Authorised and contracted	**34,111**	48,777

The above represents all capital commitments.

23 Risk management

The Company is exposed to residual value risk from its ownership of rail assets and credit risk from leasing arrangements. In addition, the Company has exposure to the following types of risk arising from its use of financial instruments: capital risk, liquidity risk and market risk. Market risk includes interest rate risk and foreign exchange risk. In addition, 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 3.12.

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.

23.1 Residual value risk

The Company's return from operating lease assets is dependent on its management of residual value risk. This risk arises to the extent that the values recovered from re-letting assets at the end of the current lease terms (the "residual values") differ from those projected at the inception of the leases. The Company regularly monitors residual value risk exposure by reviewing the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let assets at the end of their current lease terms. Provision is made to the extent that the carrying values of leased assets exceed the recoverable value.

The Company seeks to maximise the reletting potential of its assets by active management of the technical and commercial utility of these assets.

The Group has developed a specialist in-house inspection team who consider whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis. The Company's asset engineering team regularly visits the operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Company and the Group has an excellent knowledge of the current condition of its fleets.

The Group's fleet performance is constantly monitored for emerging trends that might indicate that the fleet has developed a problem. In addition, the Company works proactively with each train operator to identify opportunities to improve the performance of the fleet. The Company maintains regular dialogue with the train operator on fleet performance so that any emerging issues can be dealt with quickly.

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

23.2 Capital risk management

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

The capital structure of the Company consists primarily of borrowings from another group undertaking and equity from its immediate parent.

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

23.3 Credit risk management

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

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

23 Risk management (continued)

23.3 Credit risk management (continued)

The Company's principal credit exposures arise from the obligations of lessees to make lease rental payments; from the obligations of suppliers under contracts for services and supplies; and from the ability of bank counterparties to return cash and cash deposits placed with them.

The Company manages credit risk by way of established risk management processes encompassing credit approvals and the monitoring and reporting of exposures. Regular reviews are undertaken to assess and evaluate the financial stability of counterparties.

As part of the Company's processes for credit risk management and assessment of ECL, as well as assessment as to whether there has been a significant increase in credit risk since the exposure first arose or whether a financial asset is credit impaired, management takes into account the following:

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

Credit assessments might lead to the counterparty being considered in default or amounts due being written off to the extent not recoverable, taking into account collateral/security/recourse arrangements.

Allowances for ECL are calculated on a lifetime basis, where required for trade receivables and lease receivables under IFRS 9. In relation to other financial assets, the Company has only limited instances of assets where 12 month ECL allowances might be required. Therefore the need to consider when there is a significant credit deterioration is only needed in rare situations (for example, debts overdue by more 30 days) and on a case by case basis. Counterparties will be regarded as having low credit risk where an investment grade rating is available.

Credit Risk Exposure

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The Company has established a credit procedure under which each new customer is analysed individually for creditworthiness, including for example, external ratings, if they are available, financial statements, credit agency information and industry information. The Company limits its exposure to credit risk through contractual documentation. In monitoring customer credit risk, customers are considered on an individual basis (or grouped according to their credit characteristics, including their geographic location, industry, trading history with the Company and existence of previous financial difficulties).

The Company's principal exposure to credit risk as at 31 December 2021 amounts to the balance of Trade and other receivables as disclosed in note 13, together with Cash and cash equivalents as disclosed in note 12. The carrying amounts of these assets represent the maximum credit exposure.

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

23 Risk management (continued)

23.3 Credit risk management (continued)

The definition has been applied historically by the Group and is regarded as appropriate, having regard to the nature of the Group's exposure and past experience.

In particular, substantially all of the trade receivables outstanding at 31 December 2021 have been received subsequent to year-end, other than where payment has been deferred, as described in note 13.

In light of the above, the Company considers that an ECL of £622,000 is required at 31 December 2021 (2020: £353,000).

This reflects the Company's assessment of each 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.

23.4 Market risk management

23.4.1 Foreign exchange risk

The Company hedges against foreign exchange risk on its financial assets or financial liabilities.

A 50 basis points increase in Euro:GBP spot exchange rate would have resulted in an increase of £35,000 (2020: £60,000) in amounts recognised in the hedging reserve for the financial year (note 15). The sensitivity analysis is applied to spot exchange rate at 31 December 2021 (2020: at 31 December 2020) and represents a reasonable approximation of possible change.

23.4.2 Interest rate risk management

The Company has exposure to fluctuations in interest rates. Cash flow exposure to fluctuations in interest rate is managed at a Group level through the use of interest rate swaps. The cost or benefit derived from the use of swaps is taken into account in determining the cost of intercompany loans.

23.4.3 Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in a decrease of £184,000 (2020: £255,000) in interest expense on intercompany loan for the financial year. The sensitivity analysis is applied to the borrowing rate and performed on the monthly balance of the relevant financial instrument and represents a reasonable approximation of possible change.

23.4.4 Approach to hedging

Consistent with prior years and where required, the Company will use foreign exchange contracts to manage its foreign currency risk by holding foreign exchange forward contracts to hedge the variability in sterling cash flows associated with committed EUR denominated capital expenditure. Where contracts settle before expenditure is incurred, foreign exchange deposits continue to hedge this variability.

Forward foreign exchange contracts are designated as part of hedging relationships upon their inception. The Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the 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 until all capital expenditure has been incurred. 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

23 Risk management (continued)

23.5 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. The Security Group's liquidity is further under-pinned by the ability of group undertakings to borrow under a £600,000,000 revolving credit facility which matures on 4 November 2023 and lend the proceeds to the Company.

Undiscounted cash flows on the Company financial assets and financial liabilities are analysed below by their contractual due date. Undiscounted cash flows in respect of the intercompany loans with other entities include the principal amount only, due to the uncertainty of intercompany movements and of interest estimation. Interest on intercompany loans is settled as part of intercompany cash movements.

	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2021						
Financial assets						
Trade and other receivables	**7,225**	**7,225**	**-**	**7,225**	**-**	**-**
Cash and cash equivalents	**7,134**	**7,134**	**7,134**	**-**	**-**	**-**
	14,359	**14,359**	**7,134**	**7,225**	**-**	**-**
Financial liabilities						
Trade and other payables	**43,595**	**43,595**	**-**	**43,595**	**-**	**-**
Intercompany term lending	**1,260,093**	**1,692,325**	**-**	**118,760**	**475,039**	**1,098,526**
Intercompany loan	**723,881**	**723,881**	**-**	**-**	**723,881**	**-**
	2,027,569	**2,459,801**	**-**	**162,355**	**1,198,920**	**1,098,526**
Total financial instruments	**(2,013,210)**	**(2,445,442)**	**7,134**	**(155,130)**	**(1,198,920)**	**(1,098,526)**

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

23 Risk management (continued)

23.5 Liquidity risk management (continued)

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2020						
Financial assets						
Amortised cost						
Trade and other receivables	11,927	11,927	-	11,927	-	-
Cash and cash equivalents	16,438	16,438	16,438	-	-	-
	28,365	28,365	16,438	11,927	-	-
Financial liabilities						
Fair value through profit or loss						
Amortised cost						
Trade and other payables	37,192	37,192	-	37,192	-	-
Intercompany term lending	1,322,361	1,811,085	-	118,760	475,039	1,217,286
Intercompany loan	956,281	956,281	-	-	956,281	-
Bank loan	6,095	6,095	-	6,095	-	-
	2,321,929	2,810,653	-	162,047	1,431,320	1,217,286
Total financial instruments	(2,293,564)	(2,782,288)	16,438	(150,120)	(1,431,320)	(1,217,286)

24 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 £'000**	**Fair value Level 1 £'000**	**Fair value Level 2 £'000**	**Fair value Level 3 £'000**
Financial assets					
Amortised cost					
Trade and other receivables	***13***	**7,225**			
Cash and cash equivalents	***12***	**7,134**			
Total financial assets		**14,359**			
Financial liabilities					
Fair value through profit or loss					
Amortised cost					
Trade and other payables	***16***	**43,595**			
Intercompany term lending	***18***	**1,260,093**			
Intercompany loan	***18***	**723,881**			
Total financial liabilities		**2,027,569**			
Total financial instruments		**(2,013,210)**			

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

24 Financial instruments (continued)

31 December 2020	*Note*	Carrying amount		Fair value	
			Level 1	Level 2	Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Amortised cost					
Trade and other receivables	*13*	11,927			
Cash and cash equivalents	*12*	16,438			
Total financial assets		28,365			
Financial liabilities					
Fair value through profit or loss					
Amortised cost					
Trade and other payables	*16*	37,192			
Intercompany term lending	*18*	1,322,361			
Intercompany loan	*18*	956,281			
Bank loan	*18*	6,095			
Total financial liabilities		2,321,929			
Total financial instruments		(2,293,564)			

25 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).

26 Operating lease arrangements

The Company as lessor

The Company has contracts with lessees in relation to rolling stock. At the reporting date, the outstanding commitments for undiscounted lease payments to be received under operating leases are as follows:

	2021	**2020**
	£'000	**£'000**
Within one year	**294,600**	345,697
1-2 years	**188,991**	215,796
2-3 years	**173,210**	124,745
3-4 years	**108,942**	110,159
4-5 years	**94,199**	27,074
Over 5 years	**81,111**	23,009
	941,053	846,480
Aggregate operating lease rentals receivable in the year	**409,733**	456,272

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

27 Related-party transactions

27.1 Identity of related parties

The Company has a related party relationship with its Directors (refer to page 11) 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
- Eversholt Investment Limited
- European Rail Finance Limited
- Eversholt Rail Holdings (UK) Limited (dissolved on 4 February 2020)
- Eversholt Finance Holdings Limited
- 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

27.2 Transactions with related parties

Dividend income and dividends paid are more fully described in note 10. The Company has loans with related parties, more fully described in note 18. Finance charges and Interest on the loans is more fully described in note 6.

The Company paid management fees to Eversholt Rail Limited of £22,639,000 (2020: £20,744,000).

The Company paid Eversholt Rail Limited £16,505,000 for the procurement of maintenance of the rolling stock (2020: £74,776,000).

The Company paid transaction fees to Eversholt Funding plc of £nil (2020: £1,468,000).

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

28 Contingent liabilities

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

29 Subsequent events

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