Eversholt UK Rails (Holding) Limited and subsidiaries
(Security group)

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

Registered No: 10783654

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

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for the year ended 31 December 2021

CEO Foreword

This year has seen both challenges and opportunities for Eversholt Rail. Despite the continued disruption posed by COVID-19, our customers, suppliers and employees have remained positive and resilient. This has allowed us to maintain stability for our key stakeholders and continue progressing innovative projects, including new decarbonisation solutions to the industry.

In 2021, the United Kingdom ("UK") Government sent a further signal of the importance of rail and its role in helping to achieve the UK's net-zero targets by publishing the Transport Decarbonisation Plan. The plan outlines how the Government aims to use further rail electrification, as well as battery and hydrogen trains, to enable a zero carbon railway. It is now clearer than ever that the rail sector will play a significant role in delivering these targets. Not only because rail is already a viable low-carbon mode of transport[1], but also by increasing modal shift away from other less 'green' transport means, such as road usage and aviation.

Due to the importance of the decarbonisation targets to the sector, we have continued to progress a number of projects to develop low-carbon rolling stock solutions or facilitate modal shift. We have a Memorandum of Understanding with Alstom to develop proposals for the UK's first ever brand-new fleet of hydrogen trains. In a separate initiative we are working with partners, and engaging key industry stakeholders to champion innovation with the Revolution Very Light Rail ("RVLR") project. During the year we continued to develop a parcel express freight train based the Class 321 fleet.

The vast majority of our fleet, 76%, is powered by electricity and compared to other modes of transport is already green, a further 7% of our portfolio is bi-mode running on electricity where infrastructure exists and on diesel power on sections of routes that have not been electrified. 17% of our portfolio operates on diesel power only. The majority of our diesel portfolio has modern engines (Euro 3b), which reduce the amount of nitrogen oxides and particulate emissions substantially compared with earlier generations of diesel fleets. We are progressing projects to decarbonise this small portion of our fleet to protect residual value and continue our efforts to improve further what is already a green portfolio.

In May 2021, the UK Government announced its intention to reform the rail franchising model through the publication of the Williams-Shapps Plan for Rail. In November the Integrated Rail Plan for the North and Midlands, outlining plans to invest £96bn in rail services across the UK, was published. We expect further publications in 2022 as the industry works together to shape and develop the overall structure and operating model ahead of the establishment of Great British Railways ("GBR") expected in 2024.

Alongside this investment and the ongoing focus from government to improve rail services, Eversholt Rail will continue to develop our relations with government and play an important role in helping train operators to deliver efficient and effective passenger services.

Following the initial disruption of the pandemic, I am proud of the way in which our team has adapted effectively to both remote and hybrid working measures. We have continued to invest in the safety and development of our employees, offering training to ensure they can adapt and enable remote learning, as well as increasing our focus on staff wellbeing even further.

While Environmental, Social and Governance ("ESG") considerations have always been embedded in our business, this year we went further and strengthened our ESG focus and management oversight. We remain committed to actively contributing to wider society and local communities, continuing to support several charities and not-for-profit organisations.

Eversholt Rail's strong and supportive shareholders and our disciplined approach to growth ensures that we are well positioned to take advantage of changes in our sector and the wider UK transport system.

I would like to thank everyone at Eversholt Rail for their continued hard work and commitment in 2021, as well as all our key stakeholders for their support. I am confident that the initiatives described and those planned for the next few years will position the business well for long-term success.

[1] Rail Emissions 2019-20: https://dataportal.orr.gov.uk/media/1843/rail-emissions-2019-20.pdf

Presentation of information

These financial statements comprise the consolidated financial statements of Eversholt UK Rails (Holding) Limited and subsidiaries (the "Group"), (also referred to as the "Security Group" in these financial statements) together with the financial statements of Eversholt UK Rails (Holding) Limited (the "Company").

As well as meeting the requirements of the Companies Act 2006, these financial statements also meet the reporting requirements of the Financing Documents entered into by certain of the subsidiaries of the Company on 4 November 2010 which the Company acceded to on 28 June 2017. The Security Group consists of the Company and its subsidiaries, being the group of companies that are Obligors under the Financing Documents.

1. Principal activities

The principal activity of the Group is to own and lease rolling stock and other rail assets in the UK. The Group owns a diverse range of passenger rolling stock including regional, commuter and high speed passenger trains as well as freight locomotives. Our rolling stock is leased to train operating companies ("TOCs") and freight operating companies ("FOCs"). Most TOCs are granted contracts to operate passenger rail services by the Department for Transport ("DfT"), Transport Scotland, Transport for Wales or Transport for London (or other relevant rail services sponsors) whilst FOCs and other TOCs operate on an open access basis. Notwithstanding recent short term lease extensions due to forthcoming changes to the rail franchising model and COVID-19, rolling stock is typically leased to customers on medium to long-term operating leases. The Group also provides services in relation to the procurement and management of heavy maintenance of rolling stock on behalf of its customers.

The Group has a proud history of innovation and plays an integral role in the growth and modernisation of the UK rail sector by introducing new products, technologies and manufacturers into the market. We continue to invest in innovation through our employees, projects and manufacturers, creating and securing jobs and fostering skills across the UK.

2. Strategy

Our 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:

- 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 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.

Section 4 describes the progress achieved in 2021, including, where relevant, details of key performance measures against the above strategic areas and ESG themes.

3. Business environment

3.1 UK rail industry

Until the mid-1990s, British Rail, a UK Government entity, owned all rail operations in the UK, with the exception of those in Northern Ireland, the London Underground and some metropolitan services in other major cities. British Rail was privatised in the mid-1990s and the rail industry was separated into three

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

3. Business environment (continued)

3.1 UK rail industry (continued)

distinct sectors: rolling stock, operating companies and infrastructure (e.g. track). The Group is one of three rolling stock leasing companies that were established at the time of privatisation to own and lease passenger rolling stock to operating companies. Since that time, a number of new entrants have entered the market.

Under current arrangements, control over rail infrastructure is the responsibility of Network Rail, a company limited by guarantee. Passenger railway services in the UK are operated by TOCs. Until September 2020 this was on the basis of franchises awarded by the relevant franchising authority through a competitive tender process.

During 2020, as part of its continued response to the COVID-19 pandemic, the UK Government introduced short term Emergency Measures Agreements (“EMAs”) that provided financial support to most train operating companies by accepting the risk associated with passenger revenue. This was subsequently followed by short term Emergency Recovery Measures Agreements (“ERMAs”) which sought to set out a framework for the recovery of each TOC from the pandemic.

In summer 2021, the UK Government issued a White Paper (“the Williams-Shapps Plan for Rail”) which set out plans for the restructuring of the railway. The plan announced that a new organisation, 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. It will be responsible for the specification of rail services including timetabling, customer experience, fares and nationwide marketing, and branding. It will let contracts to private sector operators who will be incentivised to deliver a reliable railway in accordance with the standards set by GBR. The most significant change from the current model is that, in most cases, revenue risk will be borne by GBR and not the private sector operators. 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, pending legislation, at some time during 2024. It is expected that rolling stock will continue to be provided by third party organisations such as Eversholt Rail to private train operators. The proposed reforms do not assume any direct change to the current industry model for procurement of train fleets and maintenance by independent train-leasing companies.

To facilitate the transition to the new industry structure, the DfT is currently agreeing a series of National Rail Contracts (“NRCs”) with existing TOCs as EMAs and ERMAs conclude.

The terms of each NRC vary from TOC to TOC but usually include a core term of between 2 and 4 years. The NRCs also typically include options to extend the term by up to a further 4 years or have shrink-back rights where a longer initial term may be shortened.

Should the DfT not be able to agree suitable NRC terms with an incumbent TOC, then operation will transfer to the DfT’s in-house Operator of Last Resort (“OLR”). Three TOCs are currently operated by OLR:

- London North Eastern Railway Limited, which provides high speed intercity services on the East Coast mainline between London and Scotland;
- Northern Trains Limited, which provides local services in the north of England; and
- SE Trains Limited, which provides commuter and regional services throughout Kent and East Sussex.

The White Paper sets out the introduction of passenger service contracts (“PSCs”), which will replace franchises.

The new system of PSCs will build on the concession model used by Transport for London (“TfL”) Overground services and many railways around the world. The aim of PSCs will be to focus operators on running services efficiently and providing reliable and high-quality services for passengers.

This is a major change from franchising, where each private operator designed its own timetable, set fares and took revenue on its part of the network. Competitions were based on complex and uncertain revenue forecasts, as most operators took both revenue and cost risk. This is expected to end under most PSCs.

On 17 March 2021 the Scottish Government announced that a wholly-owned OLR company, ScotRail Trains, will be taking over the operations of Abellio ScotRail from April 2022, with our incumbent fleets (Classes 318, 320, 334 and 380) continuing to be leased by Transport Scotland’s OLR.

3. Business environment (continued)

3.1 UK rail industry (continued)

On 8 February 2021 Transport for Wales' OLR took over operation of the Wales and Borders rail services, renationalising the railway in Wales. As part of this transition we sold the originally-leased fleet of Mark IV passenger coaches and Driving Van Trailers ("DVTs"), together with additional vehicles to Transport for Wales.

We will continue to engage with industry regulators and stakeholders to monitor the emerging plans for the creation of GBR and the implementation of the Williams-Shapps Plan for Rail so that we can understand the impact for the Group, anticipate and respond to changes in the most appropriate way.

3.2 The withdrawal of the UK from the European Union ("EU")

The UK's withdrawal from the EU and the UK-EU Trade and Co-operation Agreement signed in December 2020, continues to have little direct impact upon the Group. Notwithstanding the risk of delays caused by increased customs checks and the possibility that higher costs could emerge through general wage inflation (partly attributable to skills shortages arising from the UK's withdrawal), the risk to the Group of disruption or increased cost to the supply chain as a result of new arrangements is regarded as not material.

3.3 Climate change and the regulatory environment

The rail industry has a key role to play in the UK's actions to mitigate climate change. Rail is already a relatively low-carbon form of transport and is one of the most efficient ways of moving high volumes of people and freight over long distances. In 2019, Greenhouse Gas ("GHG") emissions from rail (passenger and freight) made up just 1.4% of the UK's domestic transport emissions, while transport emissions accounted for 28% of the UK's total emissions[2]. Through innovative low-carbon solutions to modify existing self-powered assets, and growth opportunities with new trains that have greener credentials, the railway industry continues its own decarbonisation journey.

In early 2018, the UK Government challenged the UK rail industry to remove all diesel-only trains by 2040 and to provide a vision for how it will decarbonise. Scottish Ministers have set an earlier deadline of 2035. Air quality in stations and cities is a major concern, which might pressure the regulator to impose further restrictions on the transportation sector. In June 2019, legislation was established requiring the UK to achieve net zero carbon emissions by 2050.

The Group is an active member of the industry's forums for discussions as to how these targets can be responded to and met. A significant modal shift to rail will be a key element of the overall transport decarbonisation strategy, as set out in the DfT's Transport Decarbonisation Plan published in July 2021. Network Rail's Traction Decarbonisation Network Strategy ("TDNS") produced in 2020 supports the development of a programme for change, which is expected to be implemented as part of the Whole Industry Strategic Plan being produced by the GBR Transition Team. The scale of the challenge faced by the rail industry is significant and inevitably, change will not be immediate. It is also expected to be constrained by spending limits set by HM Treasury. Progress will need to be managed to ensure an efficient, co-ordinated transition in as safe and effective way as possible.

3.4 Customers, suppliers and industry stakeholders

The Group's efforts to develop and maintain strong relationships with its business counterparties and stakeholders has intensified during the COVID-19 pandemic. The frequency of operational reviews has been increased to help understand and support key customers and the supply chain. Furthermore, we have been working with our customers and suppliers to identify product improvements to our fleets that could potentially reduce the risk of transmission of the coronavirus.

[2] ORR (2020) Rail Emissions 2019-20. Available at: https://dataportal.orr.gov.uk/media/1843/rail-emissions-2019-20.pdf

3. Business environment (continued)

3.4 Customers, suppliers and industry stakeholders (continued)

Customer feedback is sought at regular contract reviews and quarterly meetings attended by senior representatives from each company. The Group has in place a complaint policy which covers both general and Code of Practice complaints. In 2021, the Group received no new complaints from customers.

The Group continues to engage regularly and in a structured manner with national and sub-national transport services sponsors and with other key stakeholders to gain early insight into their emerging plans and thereby position the Group favourably to secure business opportunities that may arise.

4. Development and performance of the business

4.1 Leasing and asset managing our existing UK fleet

	2021	2020
Number of vehicles owned by the Group	**3,341**	3,498
Group rolling stock utilisation (percentage of vehicles available for lease which were let)	**97.4%**	97.6%

Leasing developments

On 17 March 2021, in a statement to the Scottish Parliament by Transport Secretary Michael Matheson, it was announced that ScotRail's EMA would be extended until September 2021, this has subsequently been extended to 18 February 2022. Transport Scotland, on behalf of The Scottish Ministers, has formally announced by way of a Prior Information Notice that it will take over operations from Abellio in April 2022.

On 20 May 2021, FirstGroup announced the agreement of NRCs for its TransPennine Express and South Western Railway train operating companies. The new NRCs commenced on 30 May 2021, when the previous ERMAs came to an end. In the same announcement FirstGroup noted that *"the West Coast Partnership ERMA is in place until the end of March 2022 and we are discussing an NRC with duration of up to 31 March 2032 (with the core and extension periods to be determined)"*. The existing Emergency Measures Agreement for Great Western Railway had already been extended to June 2021, and the underlying direct award runs to 1 April 2023 with an extension option of up to one year.

On 17 June 2021, Go-Ahead Group announced that the DfT has extended the Govia Thameslink Railway ("GTR") ERMA from 20 September 2021 until 31 March 2022.

On 28 September 2021, the DfT announced that the Government's Operator of Last Resort would take over running of London & South Eastern Railway services from 17 October 2021. The DfT announced that *"The government will take over running services on Southeastern from 17 October 2021, after a serious breach of the franchise agreement's "good faith" obligation in relation to financial matters was identified"*.

A procurement supplement to the Official Journal of the European Union by the DfT on 22 October 2021 proposed to extend the existing East Midlands Railway ERMA to 16 October 2022 from 1 April 2022. The prospective NRC term is to be amended to four years core term and up to four years discretionary term. Previously this was four years core term and up to two years discretionary term.

Other re-leasing activity during the year included:

- leases for two Class 91 locomotives with ad-hoc rolling stock movement operator Rail Operations Group from January 2021 to February 2022;
- our Class 171 (12 vehicles) and Class 455 (184 vehicles) leases with GTR have been extended from September 2021 to March 2022 under existing provisions within the leases;
- extensions for Class 321 Classic (104 vehicles), Class 321/9 (12 vehicles), Class 322 (20 vehicles) and Renatus (120 vehicles) fleets with Abellio East Anglia for varying durations during the year;
- extension for Class 315 (32 vehicles) from December 2021 for varying durations;
- lease for an additional rake of ten Mark IV coaches with LNER from September 2021;
- a short term lease by GBRF of our First-in-Class Class 321 Swift Express Freight unit, for trial purposes;

Strategic report (continued)

for the year ended 31 December 2021

4. Development and performance of the business (continued)

4.1 Leasing and asset managing our existing UK fleet (continued)

Leasing developments (continued)

- leases for Class 375 (438 vehicles), Class 376 (180 vehicles), Class 465 (388 vehicles) and Class 395 (174 vehicles) lease with SE Trains from October 2021.

Lease terminations:

- on 26 February 2021, the lease termination for 24 Mark IV vehicles with Open Access operator Grand Central was concluded. The termination follows Grand Central's announcement in October 2020 that they would no longer launch the planned Blackpool – London service after COVID-19 disruption rendered plans 'unfeasible'; and
- on 26 March 2021, a lease for 15 Mark IV vehicles was terminated, with the respective vehicles and an additional 30 vehicles sold to Transport for Wales.

Asset disposals

During the year, part of the Group's Mark IV, Class 91, Class 315, Class 321 and Class 365 fleets were decommissioned or sold. These vehicles had achieved between 25 and 40 years of service. The disposal of these vehicles generated proceeds of £18,578,000 and resulted in a profit on disposal of £5,147,000. Where fleets are reaching the end of operational service life, we continue to work flexibly with customers to ensure that their services are maintained in light of changes to new vehicle delivery programmes. The Group has established policy and procedures and has engaged with third parties to reprocess end of life vehicles in a safe and environmentally sustainable way.

Heavy maintenance

The Group provides services in relation to the procurement and management of heavy maintenance of rolling stock on behalf of its customers in relation to certain fleets.

During 2021 the Group managed contracts delivering heavy maintenance projects on nine of its fleets, including mileage-based overhauls on six fleets: Class 91; Class 320; Class 321 Classic; Class 321 Renatus; Class 320/4; and Class 465. We have also undertaken three time-based overhaul projects on Mark IV, Class 320 and Class 465. Contracts have been placed and production started at the latter end of the year for the Class 334 mileage-based overhaul and Class 318 time-based overhaul. The Group spent £53,775,000 during 2021 on maintenance related activity (2020: £38,060,000).

Asset management services

The Group continues to support Cross London Trains ("XLT") with asset management services on the Class 700 fleet. The fleet is leased to Govia Thameslink Railway and maintained by Siemens.

During the year, we renewed our Services Agreement with XLT for a minimum of four years.

Fleet modifications

The Group undertakes strategic upgrades to rolling stock to ensure that its fleets continue to meet regulatory requirements and the current and future demands of its customers. Several upgrade projects were progressed during 2021 including modifications agreed as part of new leases for Class 375, Class 395, Class 222 as well as completing franchise modifications on the Class 380 and Class 334 fleets. Other projects being managed include fitting monitoring sensors to Class 185 to support maintenance optimisation and supporting Transport for Wales in modifying the Mark IV fleet for integration with their Class 67 locomotives. Expenditure on modification and refurbishment projects totalled £5,132,000 in 2021 (2020: £7,500,000).

4. Development and performance of the business (continued)

4.1 Leasing and asset managing our existing UK fleet (continued)

Fleet development

The Group continues to explore how its self-powered rolling stock fleets can be adapted to support decarbonisation and the delivery of low and/or zero-emissions railway operations. Workstreams have focussed on both understanding the fleet environmental performance and the potential technical solutions as well as customer requirements and emerging government policy.

Solutions fall broadly into two categories: firstly, improving air quality and noise emissions of our diesel fleets and secondly range extending and repurposing our electric fleets.

On the former the Group is working with the respective Original Equipment Manufacturers ("OEM") of our Class 185, Class 195, Class 222 and Class 802 to determine the most appropriate approach to modifying their propulsion systems. Potential modifications include alternative fuels, exhaust after treatment, intelligent engine management and battery hybrid. Each of which needs to be assessed in relation to the fleet position, customer expectation, and legislative requirements. Such potential modifications are intended to increase the appeal of the asset where diesel operation remains necessary.

The Group and Hitachi Rail are in the advanced stages of designing and engineering an electric-diesel-battery (tri-mode) train, with plans to undertake a trial on one of the Group's Class 802 operated by Great Western Railway. The trial is to initially replace one of the three engines currently fitted on a 5-car unit with a view to replacing all engines in the future.

The introduction of the battery will cut fuel usage and reduce carbon emissions. By using battery power to travel in and out of stations and urban areas, the train will improve air quality and dramatically reduce noise levels, creating a more pleasant environment for passengers and people living nearby.

The Group are also working both with OEMs and other rail industry specialists to investigate the introduction of battery technology to extend the range of certain electric fleets. Proposals are underway on three fleets. In one instance this includes working with UK Power Networks (which shares common ownership with the Group) to deliver charging facilities to offer a complete turnkey solution. In addition to battery technology the Group is investing in the repurposing of its legacy Class 321 fleet from passenger operation to parcels express freight operation, enabling modal shift from road to rail freight. During 2021 the Group developed a First in Class unit which is now on lease supporting trials, with a further four units on contract for conversion.

4.2 Acquisition of new and existing UK rolling stock assets

Expenditure on new build rolling stock in the year relates to acceptance payments in respect of rolling stock already in service.

	2021	**2020**
Expenditure on new build rolling stock	**£17,400,000**	£72,800,000

The final Class 195 unit to be accepted (which was the subject of a low speed derailment within a depot) has been repaired and was accepted in April 2021.

The Group continues to identify and tender for new trains and opportunities to acquire an interest in existing fleets in the UK.

There is not expected to be the level of activity in the new build market for the next few years as was seen from 2015 to 2020 because of the impact of the Pandemic and the transition to GBR. However, the drive to decarbonise the railway is expected to be a substantial influence on future new build procurement.

The Group is a member of the Revolution Very Light Rail consortium, which is developing the next generation very light rail technology, in response to the need for lightweight energy-efficient rail solutions. By combining advanced manufacturing processes and low-cost technologies from other industries, RVLR will demonstrate it is feasible to create a bespoke light rail vehicle for new purposes, for example reducing the cost of rail operation to support increasing train frequency on branch lines or the reopening of railways previously deemed uneconomic. A fully-equipped demonstrator vehicle has been completed and is undertaking

4. Development and performance of the business (continued)

4.2 Acquisition of new and existing UK rolling Stock assets (continued)

demonstrations to a wide range of stakeholders including rail service sponsors, TOCs and other interested parties at a private test site in Ironbridge, Shropshire on former passenger rail infrastructure that is representative of a typical rail reopening scheme. If widely supported this could lead to opportunities to lease production vehicles for various applications in the UK.

On 10 November 2021 Alstom, Britain's leading train manufacturer and maintenance provider, and the Group announced a Memorandum of Understanding aimed at delivering the UK's first ever brand-new hydrogen train fleet.

The two companies have agreed to work together, sharing technical and commercial information necessary for Alstom to design, build, commission and support a fleet of ten three-car Hydrogen Multiple Units (HMU). These would be built by Alstom in Britain. The new HMU fleet would be based on the latest evolution of the Alstom Aventra platform.

4.3 UK rail related non-rolling stock asset

In addition to the revenues earned from its rolling stock fleets, the Group earns revenue from long-term leases relating to its leasehold interests in two depots. Bedford depot is leased to Govia Thameslink Railway and Northam depot is leased to South Western Railway.

4.4 Innovating to support transport decarbonisation journey

Environmental considerations are an integral factor in the Group's key business decisions and through regular engagement with industry stakeholders, we look for ways to support their carbon accounting and emissions reductions objectives. The Group uses climate-related scenario analysis to inform our business strategy in relation to procuring our rolling stock, based on anticipated TDNS implementation pathways. In particular, traction decarbonisation and energy efficiency impacts are considered in our regular evaluations of the risks and opportunities for each fleet - this informs the preparation of fleet strategy, financial plans and budgets.

We are investigating three retrofittable propulsion technologies: hydrogen fuel cells, batteries, and diesel-battery hybrid power packs, to achieve low or zero-emissions train operation across the network; all these technologies enable zero-emissions operations in stations and in built-up areas. Further detail of these projects can be found in section 4.1 and 4.2 of this report. We are also progressing programmes to convert passenger trains to carry parcels to encourage modal shift from HGV to rail to reduce carbon emissions.

The TDNS Programme Business Case includes reference to two of our current projects, HMU and RVLR. The business case recommends early deployment of battery and hydrogen propulsion technologies to gain whole-system experience that will inform later phases of the 30-year implementation programme.

While our direct operations are mostly limited to office-based activities, we are committed to reducing our impact on the environment. All of the electricity supplied in our offices is fully renewable. We have removed all single use plastic cups within our premises and actively seek to recycle office waste where practical. Since 2020, we have a Cycle to Work scheme to encourage our workforce to adopt greener modes of transport.

The Group does not disclose emissions from its rolling stock assets as it does not have operational control over them. We do monitor the performance of our rolling stock, this includes reviewing feedback from TOCs and FOCs and emission data. However, the Group does disclose its emissions from usage of purchased electricity as part of Streamlined Energy and Carbon Reporting (SECR) reporting. For further details, please refer to the SECR disclosures in the Directors' report.

	2021	**2020**
Expenditure invested in alternative propulsion technology*	**£1,928,000**	£985,000
Total gross operational greenhouse gas emissions	**60.75tCO2e**	41.36tCO2e

*includes spend on traditional propulsion methods aimed at facilitating decarbonising transport modal

4. Development and performance of the business (continued)

4.5 Leading as a responsible asset owner

The Group's rail asset portfolio is managed by dedicated fleet managers with the support of project and account managers. The team comprises experienced railway professionals with an in-depth knowledge of whole life rolling stock management and our fleets, which provides us with an important insight into asset protection, reliability and fleet life extension. Their focus is safety, train performance and the development and positioning of fleets to maximise their financial return.

The Group manages its assets with a focus on maintaining and enhancing the residual value of the assets, and explores opportunities to repurpose and further extend the useful life of assets, where possible. Its approach to managing end-of-life assets and promoting a circular economy is set out in section 4.1. Recent evidence of our fleet performance was highlighted at the 2021 Golden Spanners industry awards which celebrate excellence in train maintenance. We won a total of five bronze, one silver and two gold awards, across the full age range of fleets, including former British Rail electric multiple units, first generation intercity and second generation new diesel multiple units.

The Group is directly involved in defining industry best practice, technologies and policies, understanding and influencing the changing landscape of the rail industry, and is well positioned to enhance and add to the existing portfolio to meet future requirements.

4.6 Providing a great workplace

The Group employs 102 (2020: 107) professional, technical and support staff, and is committed to their continued professional development and wellbeing. As demonstrated by our latest employee engagement survey, our culture and people are two of our biggest strengths.

Throughout the pandemic, our staff conducted their usual working practices remotely, with no staff furloughed or made redundant. We don't expect any long-term impact on our working practices due to COVID-19, as we continue to prioritise maintaining the same engaged culture, while allowing employees a degree of flexibility that makes sense for both the business and their lives. In October 2021, we implemented hybrid working measures on our return to the office, that is being trialled for a period of six months.

To ensure we continue to provide a great workplace for our employees, we undertake an engagement survey biennially and monitor employee satisfaction levels. Once the survey is complete, we provide feedback on the findings to both our Leadership Team and our employee base. Our latest survey was conducted at the end of 2020, and 100% of the participants – that is, 102 employees – confirmed that they consider Eversholt Rail to be a good place to work. We also carry out detailed exit interviews with leavers to gain their valuable feedback and operate a virtual employee comments/suggestion box. The feedback from these processes informs the design and delivery of our people agenda to ensure that appropriate measures are implemented to address opportunities for improvement.

Currently 34% of our workforce are women compared to the most recently published industry average of 16%[3]. In our latest survey, we also introduced a question around diversity and inclusion, to help us shape our D&I strategy. As a result of such feedback, in 2021, we conducted an anonymous Let's Talk About Inclusion survey and an employee workshop. Details of our approach to equality, diversity, and inclusion together with our methods of engagement with employees can be found within the Annual report and financial statements of Eversholt UK Rails Limited.

Throughout the year we have provided a range of professional training courses, including writing with impact and our approach to ESG management. In response to employees hybrid working due to COVID-19, we have moved to deliver training remotely or in a hybrid way. Each employee received an average of 4.75 hours of training in 2021, equivalent to a spend of approximately £825. The continuation of on-line learning and disruption to classroom based courses led to a reduction in training hours but an increase in spend per employee. We support continuous improvement of the workforce to deliver long-term value creation and the portion of positions filled by internal candidates in 2021 was 40%.

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[3] https://womeninrail.org/wp-content/uploads/2014/04/WR-Industry-Survey-Report-December-2015.pdf

Strategic report (continued)

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4. Development and performance of the business (continued)

4.6 Providing a great workplace (continued)

Alongside professional training, we also offer training and measures to foster employees' health and well-being and provide support during challenging times. We continued to deliver on our structured wellness strategy, invited experts to host financial health and mental health seminars; and provided regular virtual yoga, pilates and HITT sessions. In addition, we co-sponsored Rail Wellbeing Live to promote wellbeing across the industry.

The Group ensures effective management of health and safety risks through annual workplace assessments. In 2021, with employees working remotely, the assessment was carried out online. With the transition to hybrid working, we carried out another assessment at the end of the year in the office.

The Group monitors staff turnover rates. While the 2021 figure is higher than the previous year, it’s still lower than the pre-pandemic level in 2019. Turnover rate is calculated as the percentage of employees who left the organisation by resignation or retirement during the year.

	2021	2020
Training hours per employee	**4.75**	6.30
Training spend per employee	**£825**	£600
Employee turnover rates	**8.4%**	4.7%

4.7 Delivering results with integrity

The Group has a strong focus on conducting business responsibly and ethically. Our zero-tolerance approach to bribery and corruption, and modern slavery are set out in respective Group Policies. As a responsible asset owner, we conduct due diligence activities both on our business and suppliers. The scope of these activities is determined by level of risk, which is continuously monitored. For example, in the last quarter of 2021, the Group conducted a Bribery Act Risk Assessment, which found that sufficient processes and practices exist to prevent bribery. In addition, the mandatory anti-bribery training for all employees has been further improved for 2021, with changes that emphasise specific supplier risks.

The Group is committed to continue conducting relevant due diligence work to ensure alignment with evolving best practices and legislative landscape around business ethics. This sets the foundation for how the Group delivers results through a culture of integrity.

5. Risk management

The Group has established policies designed to identify, assess and manage risks which are supported by an organisation structure that ensures that responsibilities are clearly defined and communicated. Risks and related mitigating activities are regularly considered by the Risk and Compliance Committee and the Board of Directors of Eversholt Rail Limited as well as the Audit and Risk Committee of the parent company (Eversholt UK Rails Limited) on a periodic basis. In addition, ESG risks and mitigation measures are reported to the Risk and Compliance Committee. Ongoing monitoring and awareness, ensures that new risks and actions initiated to mitigate, are identified in a timely manner.

5.1 Principal risks and uncertainties

The principal risks and uncertainties reported in the Group’s risk register are as follows:

COVID-19

The Group is principally exposed to the impacts of COVID-19 through the impact of passenger volume decline. This exposure is largely mitigated in the short term by the terms of operating leases for the Group’s rolling stock; the commitment of the UK Government to ensure that rail services are maintained (including taking fare revenue risk); and the role of the OLR in maintaining passenger operations in the event of a TOC failure.

The risks to the business from COVID-19 are further described in the Directors’ report.

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

5. Risk management (continued)

5.1 Principal risks and uncertainties (continued)

Economic conditions

A less favourable economic outlook could have a negative impact on the Group's business in terms of reduced demand and reduced opportunities to retain or secure new business. The same factors could affect our key suppliers and customers. The Group regularly reviews long term economic and rolling stock demand forecasts.

Political and regulatory

The Group is exposed to a changing political landscape. The Williams-Shapps Plan for Rail sets out a fundamental change in the way the railways will be operated. However, details of how it will be implemented remain uncertain. Over and above the impacts of this plan, there is the risk of ongoing changes to Government policy and funding, as well as significant delays in infrastructure initiatives. Such changes could impact the Group's business model, reducing profitability, increasing costs and affecting demand for the Group's rolling stock. The Group fosters close relationships with key stakeholders and actively participates in rail industry consultations to understand and inform appropriate responses to developments.

Rail franchising and successor arrangements

As noted under section 3.1, GBR, once it is established, will commence awarding new concession-based passenger service contracts to operators. The impacts of these new arrangements on our business are not yet clear but it could lead to changes in the term of future leases and the way in which new fleet procurements are managed. Irrespective of industry arrangements, the Group expects that it will continue to offer to lease its rolling stock on a commercial basis.

Competition

The Group competes with other rolling stock owners to secure leases for its rolling stock. The Group has a disciplined approach to the rental offers of its rolling stock to operators, reflective of the re-letting risk at the end of the lease. Increased competition could result in lost business and reduced profitability in the short term. The Group maintains a detailed knowledge of the UK rolling stock fleet and new build alternatives, which informs its pricing of offers.

Rail technology

Following the Government's announcements regarding decarbonisation towards a net zero carbon UK environment by 2050, certain rolling stock could become obsolete, resulting in reduced revenue and profitability. The Group seeks opportunities to enhance its fleets to improve their carbon footprint and work with its partners to develop suitable traction solutions for existing and new rolling stock.

The Group monitors and mitigates the threat of a cyber security breach on our trains as well as participating in the cross-industry Rail Cyber Security Committee ("RCSC"). Eversholt Rail has a responsibility to understand risks and vulnerabilities and communicate them to train operators.

Safety and compliance with laws and regulation

Increasing complexity in rolling stock technology/interaction poses ongoing challenges to ensure safe and effective operation of the rail network. The Group's operations continue to be subject to a wide range of legislation. We have well developed policies and procedures to address and manage such risks and the Group recognises that non-compliance can lead to litigation, claims, damages fines and penalties. Fleet performance is constantly monitored for emerging trends that might indicate that a particular fleet has developed a problem.

5. Risk management (continued)

5.1 Principal risks and uncertainties (continued)

Treasury and credit rating

The Group is exposed to treasury risks including liquidity, counterparty, market and credit risk. These risks, together with an analysis of the exposure to such risks, are set out in note 32 of the financial statements.

A downgrade in the Group's credit rating may lead to increased financing costs and restrict the ability to raise funding for future investment. The Group, and its shareholders, remain committed to an investment grade rating.

The Group also recognises its responsibilities to meet ESG targets – a failure to meet prospective lenders' expectations could have significant impact on the Group's ability to raise funds at competitive rates.

Security and cyber security

In common with all businesses, the Group recognises the potential threat and consequences of security threats in the cyber environment. Cyber attacks could compromise data and systems, as well as rolling stock technology, as referenced above.

The above risks are not all of the risks highlighted by our risk management process and are not set out in order of priority. Additional risks and uncertainties not presently known to us or currently deemed to be less material may also impact our business.

5.2 Recoverable value of rolling stock

The Group seeks to maximise the re-letting potential, and therefore the residual value, of its assets by active management of the technical and commercial utility of these assets. Many of the principal risks identified above manifest in a change in the residual value of the Group's operating lease assets.

An assessment is carried out by management at least annually of the commercial value of all fleets, measured as the present value of the net anticipated cash flows arising from ownership over life. This assessment is based on the Group's knowledge of the assets and the rolling stock leasing market.

This assessment provides a basis for measuring the success of the Group in managing its assets, as well as for determining if that value is below the current book value and therefore an impairment provision might be needed.

The Group has 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 asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Group maintains an excellent knowledge of the current condition of its fleets.

Fleet performance is monitored for emerging trends that might indicate that a particular fleet has developed a problem. In addition, we work proactively with train operators to identify opportunities to improve the performance of our fleets. We maintain regular dialogue with the train operators on fleet performance so that any issues can be dealt with quickly.

Modifications to increase asset value by fleet enhancement are evaluated by an in-house team of asset managers and significant investment has been made in the production of mock-ups and vehicle demonstrators in order to advertise the available options. New engineering solutions have been developed to create comfortable and modern passenger environments in preparation for new franchise opportunities; a refurbished interior can be comparable to those offered by new rolling stock.

6. Financial performance

Financial performance is driven by the Group's ability to realise anticipated capital rentals from its rolling stock and other rail assets.

During the year, the Group generated operating lease rentals of £359,741,000 (2020: £390,196,000) and a profit after tax of £54,557,000 (2020: £9,601,000). The decrease in operating lease rentals is primarily due to fleet retirements. The increase in profit after tax in 2021 is due to a reduction in depreciation of assets and reduced finance costs following refinancing in 2020. As at 31 December 2021 the Group had net liabilities of £422,219,000 (2020: £450,383,000). The decrease in net liabilities at 31 December 2021 reflects largely the profit for the year. The average number of persons employed by the Group during the year was 102 (2020: 107).

The Group's results for the year are detailed in the Income statement on page 31.

The Group is financed by a mix of loan from Eversholt UK Rails Limited and senior debt. The terms of the senior debt contain certain covenants, the business is managed to ensure compliance with these covenants and to protect its investment grade rating.

The Group is committed to protecting its investment grade credit ratings. As at 31 December 2021, Moody's Investors Services rating for the Group and its debt issued under the Group's MTN programme was Baa2 (31 December 2020: Baa2). At the same date the Fitch Ratings grading for the Group was BBB (31 December 2020: BBB) and the bonds issued under its MTN programme were rated BBB+ (31 December 2020: BBB+).

Monthly management reporting and analysis to support business decisions includes consideration of the current and forecast measurements of:

- Leverage (net debt as a percentage of EBITDA (earnings before interest, tax, depreciation and amortisation));
- Interest cover (EBITDA divided by net interest payable);
- The extent to which net debt is covered by the net present value of anticipated capital rentals;
- Liquidity;
- Net exposure to interest rates and foreign exchange; and
- Profitability measured by EBITDA and profit after tax.

The Group also considers fleet utilisation and a number of key non-financial indicators relating to asset performance including condition, reliability and maintenance.

The Directors are satisfied that the Group has sufficient resources to continue in business for the foreseeable future.

7. Corporate Governance

The Group 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 voluntarily 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 Group adopts a number of governance policies and procedures on a group-wide basis, which are adopted and implemented by the subsidiaries of the Company to the extent relevant to their operations.

The purpose of this report is to explain these principles, how they are applied to the Company and their significance within the context of the broader Group.

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:

7. 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 Company is the holding company for the Group. The Board comprises the Chief Executive Officer, Chief Financial Officer, two other executive directors and a corporate director, LDC Securitisation Director No 3. Limited.

The Board considers that its size and composition is appropriate to its core function in setting the Group's overall strategy and overseeing the activities of the Group. In discharging this role, the Board has been supported by a number of operational committees which have, as explained below, provided the Board with high quality management information.

The Group is cognisant of the need to foster diversity in its workforce and management structures and has adopted a formal diversity and equality policy.

Principle 3 – Director responsibilities

The Board is responsible for setting the Group's overall strategy and maintaining oversight of its activities. 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;
- Treasury Committee; and
- UK Rolling Stock and Balance Sheet Committee.

7. Corporate Governance (continued)

Principle 3 – Director responsibilities (continued)

In addition, the Board of Eversholt UK Rails Limited (the "Parent") is supported by 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.

Business risk

The Board of the Parent is responsible for the identification and management of risk within the Group. The Board is supported in its work by a dedicated Audit and Risk Committee ("ARC") – ARC is a committee of the Parent.

7. Corporate Governance (continued)

Principle 4 – Opportunity and risk (continued)

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. In the opinion of the Board, these representatives provide valuable independence and challenge to the risk assessment and mitigation work of the Group.

Industry-specific operational risks

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

Eversholt UK Rails Limited maintains an Operational Safety Committee (“OSC”) (referred to above) and an External Safety Panel (“ESP”).

The ESP is comprised of Eversholt UK Rails Limited’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 ESP is chaired by the senior independent non-executive director and reports annually to the Board of Eversholt UK Rails Limited on the operation of the ESP.

The role of the ESP is to provide an independent forum to review the work of the OSC and to report to the Board on the OSC's work and its 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 Group is committed to attracting, retaining and incentivising a talented workforce to deliver the Group's strategic objectives.

The Board of the Parent maintains a Remuneration and HR Committee which meets annually to review the remuneration of the Group's leadership team. In conjunction with external consultants, the Remuneration and HR Committee benchmarks executive pay against a number of comparators. For the wider employee base, remuneration is set by the Chief Executive Officer of the Parent, again subject to regular external benchmarking against an appropriate peer 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.

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.

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.

7. Corporate Governance (continued)

Principle 6 – Stakeholders (continued)

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, TfL, 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.

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.

Employees

The Group recognises that a diverse workforce is critical to the future of the business and strives to create an environment where its employees can thrive personally and professionally. This includes a focus upon building valuable, experienced teams and attracting a diverse pool of talent. Long-term success depends

7. Corporate Governance (continued)

Principle 6 – Stakeholders (continued)

Employees (continued)

upon the recruitment, development, wellbeing and retention of high quality people that share the right core values and culture. Features of the Group's approach to equality, diversity and inclusion are:

- ensuring that employees feel welcome, valued and respected, motivated to perform at their personal best, with health and safety a priority;
- creating high performing teams by bringing together different opinions and perspectives to deliver the best solutions for customers and opportunities for employees and the business;
- seeking continuous improvement processes to maintain and enhance a diverse and inclusive environment, embedding an appropriate culture through consistent key messages; and
- encouraging and attracting people from all ages and backgrounds.

Integral to this approach is communication. The Group adopts the following principal methods of engagement with its employees:

- *Staff satisfaction survey*: the Group runs a regular staff survey to understand ways in which it can improve the working environment;
- *CEO "town hall" meetings*: All employee meetings are held on a quarterly basis by the CEO to ensure a cascade of information. Issue-specific meetings are held by Leadership team members on a regular basis; and
- *Group-wide training*: Training has been held during the course of the year for all employees on relaunched performance management processes and compliance matters (e.g., anti-bribery), and remote working.

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 "Climate change and the regulatory environment" on page 5 of this Strategic report.

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.

8. Our approach to managing ESG

As a leading UK owner and lessor of rolling stock and other rail assets, the Group recognises it must adhere to the highest standards in all of its areas of its business. ESG has always been embedded in our business, and it also underpins our investment strategy while enabling innovations for our assets that support the UK's decarbonisation agenda.

The Group has already engaged in a number of innovative projects such as the exploration of hydrogen fuel cell trains development as described under section 4.2. For further details on the latest Group' developments, please refer to our website[4].

Additionally, the Group recognises it must act responsibly in its own operations towards the environment, its employees and its communities at all times to create long-term, sustainable value.

Communities

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.

The Company was formed in 2017 to act as an intermediate holding company within the Group. It undertakes no significant business activity. The Company is a wholly owned subsidiary and does not have any employees. Accordingly, the Directors do not consider the factors listed in section 172(1)(b) (interests' of the company's employees), section 172(1)(d) (the impact of the Company's operations on the community and the environment) or section 172(1)(f) (need to fact fairly between the members of the company) are relevant to the proper discharge of their duty under section 172.

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

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

The Company is the holding company of a group which operates in a sector characterised by long-term relationships between stakeholders, driven by a relatively small number of market participants.

The Group provides rolling stock and rolling stock related services to train and freight operating companies who operate rail franchises for periods that are typically between seven and ten years. Accordingly, consideration of long-term consequences is 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 subsidiaries, promoting long-term strategic decision-making.

During 2021, the Board has made decisions in relation to dividends payable to shareholders as well as amounts to be retained in the Group for investment purposes.

[4] https://eversholtrail.co.uk/news/

8. Our approach to managing ESG (continued)

Section 172(1) statement (continued)

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

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

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

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

Details of these groups, and the main methods that the Directors have used to engage with those stakeholders during the course of the year, is set out in the corporate governance statement within the Strategic report.

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
LDC Securitisation Director No 3. Limited
D Spence
L R Warsop

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

Streamlined energy and carbon reporting

In preparing the Directors' report, the Group has implemented the 'Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018' (the "Regulations"), effective from 1 January 2021. In this respect the Group provides the following information for the year ended 31 December 2021:

Meeting energy requirements of the Group's rolling stock/depot assets is the responsibility of the Group's customers, being the train and freight operating companies. The Group does not therefore consume any fuel/electricity/gas in relation to these assets.

GHG Emissions & Energy Use Data for the year ended 31 December 2021, together with comparative:

Year ended 31 December	2021	2020
Gas combustion (kWh)	**-**	-
Fuel consumption for transport purposes (kWh)	**40,410**	8,778
Electricity usage (kWh)*	**239,309**	168,069
Emissions from combustion of gas, tCO2e (Scope 1)	**-**	-
Emissions from combustion of fuel for transport purposes, tCO2e (Scope 1)	**-**	-
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel, tCO2e (Scope 3)	**9.94**	2.18
Emissions from purchased electricity, tCO2e (Scope 2, location-based)*	**50.81**	39.18
Total gross CO2e based on above, tCO2e	**60.75**	41.36
Intensity ratio: tCO2e/employee (102 employees in 2021 and 107 in 2020)	**0.60**	0.38
Methodology	**All tCO2e emissions have been calculated using 2021 UK Government GHG conversion factors for Company Reporting**	All tCO2e emissions have been calculated using 2021 UK Government GHG conversion factors for Company Reporting

* In 2021, the Group relocated to new offices. The 2021 figures reflect energy consumption from the Group's new and previous offices which are still leased until June 2022. Therefore, the increase in usage and emissions in 2021 is anticipated to be a temporary feature.

Streamlined energy and carbon reporting (continued)

(a) Energy efficiency action taken:

In the period covered by the report, energy efficiency actions continue to be taken where possible and within the control of the Group. With the Group now occupying serviced accommodation, energy initiatives are largely undertaken by the property managers. The Cycle to Work scheme encourages our workforce to adopt greener modes of transport.

(b) Reporting methodology:

In order to calculate emissions in 2021, "2021UK Government GHG Conversion Factors for Company Reporting" have been used. Calculated GHG emissions have been rounded to 2 decimal places.

Electricity consumption data was provided by the relevant landlords in kWh totals. kWh totals have been converted to tCO2e using the above described GHG conversion factors.

Grey fleet usage was provided as a breakdown of millage. Mileage figures were converted into tCO2e using the above referenced conversion factors. Fuel source(s) and engine(s) size of were unknown, therefore the conversion factor for an average car size and unknown fuel source was applied.

The comparative information for 2020 was calculated as follows:

- All tCO2e emissions were calculated using 2020 UK Government GHG conversion factors for Company Reporting.
- Electricity consumption was calculated from landlord invoicing which provided kWh totals. Amounts for October to December 2020 were determined by reference to consumption for the comparative period. Transport fuel consumption was calculated by applying vehicle fuel efficiency figures (listed in 2020 UK Government GHG conversion factors for Company Reporting) to annual vehicle mileage, annual kWh totals were then calculated.

COVID-19

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

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

At this stage, the Directors do not believe that COVID-19 presents any material risks to the Company, nor changes to risk management as described in note 32. 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.

Fostering business relationships

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

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

Political donations

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

Risk management and corporate governance

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

Future developments

In summer 2021, the UK Government announced that a new organisation, GBR will be created through the amalgamation of Network Rail, some elements of the DfT and elements of other cross industry organisations such as the Rail Delivery Group. Whilst precise plans have not yet been set out for the roll-out of, and transition to, GBR, it is expected that GBR will go live at some time during 2024 as described in section 3.1.

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

Dividends of £41,800,000 were paid in the year (2020: £46,500,000).

Going concern basis

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

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 Group has adequate resources to continue in existence for the period of at least 12 months from the date when the financial statements are authorised for issue.

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

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

Disclosure of information to the auditor

Each person who is a director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Group'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 Group'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.

Annual report on internal control over financial reporting

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

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

Annual report on internal control over financial reporting (continued)

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

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

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

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 have accepted responsibility for the preparation of these financial statements for the year ended 31 December 2021.

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 UK adopted international accounting standards. 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 Group and Company and of the profit or loss of the Group and Company for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

1. properly select and apply accounting policies;
2. present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
3. 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
4. make an assessment of the Group's and 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 Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

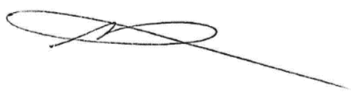
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

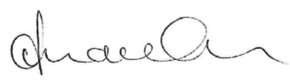
We confirm that to the best of our knowledge:

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

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



M B Kenny
Director



A J Wesson
Director

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

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited and subsidiaries (Security group)

for the year ended 31 December 2021

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Eversholt UK Rails (Holding) Limited (the "Company") and subsidiaries (the "Group"), (also referred to as the "Security Group") together with the financial statements of Eversholt UK Rails (Holding) Limited (the "Company"):

- give a true and fair view of the state of the Group and 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 Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated statement of financial position;
- the Consolidated statement of cash flows;
- the Consolidated statement of changes in equity;
- the related notes;
- the Company statement of financial position;
- the Company statement of cash flows;
- the Company statement of changes in equity; and
- the related notes to the Company financial statements.

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 Group and 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 Group and Company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the financing facilities available to the Group and 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 Group and 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.

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 Group and Company's ability to

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited and subsidiaries (Security group) (continued)

for the year ended 31 December 2021

Conclusions relating to going concern (continued)

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 Group and 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 Group or company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the Group and Company's industry and their control environment, and reviewed the Group and 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 Group and Company operate in, and identified the key laws and regulations that:

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited and subsidiaries (Security group) (continued)

for the year ended 31 December 2021

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

- 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, pensions legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group and 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, pensions, financial instruments 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:

Revenue recognition:

- We are required by auditing standards (ISA 240) to presume there is a fraud risk in relation to revenue recognition and conduct our audit testing accordingly. We have pinpointed this risk to the accuracy of maintenance income recognised in line with contractual arrangements. There is the risk present owing to the fact that management's judgement is required in allocating amounts to be recognised as deferred income or revenue.

Our procedures to respond to the risk identified included the following:

- We assessed the revenue recognition policies for maintenance income in accordance with IFRS, and looked for any changes with the prior year policy. The assessment of key controls around the revenue cycle was performed to ensure that the business process has sufficient controls in place to support whether revenue has been recognised appropriately and in the correct period. Test of details was performed around the deferred income balance, to ensure that management's estimate is reasonable and appropriate

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.

Our procedures to respond to the risk identified included the following:

- 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 Directors of Eversholt UK Rails (Holding) Limited and subsidiaries (Security group) (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 Group and Company and their 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

Consolidated income statement
for the year ended 31 December 2021

	Note	Group Year ended 31 December 2021 £'000	Group Year ended 31 December 2020 £'000
Revenue			
Finance lease income	*4.1*	**443**	528
Operating lease income	*4.1*	**359,741**	390,196
Maintenance income	*4.1*	**61,737**	42,877
Other income	*4.1*	**4,227**	5,087
Total revenue	*4.1*	**426,148**	438,688
Cost of sales	*5*	**(195,458)**	(228,751)
Gross profit		**230,690**	209,937
Finance income	*6*	**179**	624
Finance expense	*7*	**(147,862)**	(173,821)
Net fair value gain/(loss) on derivative financial instruments	*17*	**13,318**	(5,905)
Pension finance expense	*31.6*	**(115)**	(124)
Administrative expense	*8*	**(23,191)**	(23,904)
Gain on disposal of property, plant and equipment		**5,147**	488
Other gains	*23*	**-**	11,354
Profit before tax		**78,166**	18,649
Income tax charge	*11*	**(23,609)**	(9,048)
Profit for the year		**54,557**	9,601

There were no discontinued or discontinuing operations during the year.

The notes on pages 36 to 77 form an integral part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2021

	Note	Group Year ended 31 December 2021 £'000	Group Year ended 31 December 2020 £'000
Profit for the year		**54,557**	9,601
Other comprehensive income/(expense)			
Actuarial gain/(loss) on defined benefit scheme	*31.7*	**4,302**	(2,057)
Tax (charge)/credit in respect of actuarial movement on defined benefit scheme	*18*	**(540)**	522
Realised loss on cash flow hedges to Income statement	*17*	**961**	1,153
Effective portion of changes in fair value of cash flow hedges	*17*	**3,894**	(52,003)
Realised loss on cash flow hedges transferred to Income statement	*17*	**4,242**	353
Realised (gain)/loss on cash flow hedges to property, plant and equipment	*17*	**(1,188)**	11,447
Tax credit on effective portion of changes in fair value of cash flow hedges	*17*	**3,736**	8,661
Total other comprehensive income/(expense)		**15,407**	(31,924)
Total comprehensive income/(expense) for the year		**69,964**	(22,323)

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. Amounts relating to other items would be recycled through reserves.

Consolidated statement of financial position
as at 31 December 2021

		Group	
		As at 31 December 2021	**As at 31 December 2020**
Assets	***Note***	**£'000**	**£'000**
Non-current assets			
Property, plant and equipment	***12***	**2,100,430**	2,234,096
Right-of-use assets	***13***	**1,460**	3,620
Finance lease receivables	***14***	**2,164**	3,335
Derivative financial instruments	***17***	**17,940**	48,325
		2,121,994	2,289,376
Current assets			
Inventory	***20***	**151**	302
Finance lease receivables	***14***	**1,171**	1,083
Contract assets	***4.2***	**2,855**	2,037
Trade and other receivables	***15***	**12,075**	16,019
Current tax	***11***	**9,727**	4,222
Cash and cash equivalents	***21***	**225,064**	81,534
Amount owed by Eversholt UK Rails Limited	***34.2***	**-**	8
		251,043	105,205
Total assets		**2,373,037**	2,394,581
Liabilities and equity			
Current liabilities			
Trade and other payables	***22***	**67,550**	66,742
Lease liabilities	***16***	**603**	970
Current tax		**6,857**	-
Borrowings	***23***	**71,747**	63,820
Other liabilities	***25***	**11,290**	18,206
Provisions	***26***	**165**	-
		158,212	149,738
Non-current liabilities			
Retirement benefit obligation	***31.5***	**5,026**	8,915
Borrowings	***23***	**2,217,012**	2,267,504
Deferred tax	***18***	**54,599**	39,265
Contract liabilities	***4.2***	**10,567**	53,364
Other liabilities	***25***	**191,273**	117,357
Derivative financial instruments	***17***	**156,867**	204,561
Lease liabilities	***16***	**1,700**	4,095
Provisions	***26***	**-**	165
		2,637,044	2,695,226
Total liabilities		**2,795,256**	2,844,964
Equity			
Share capital	***27***	**-**	-
Other reserve		**13,672**	13,672
Accumulated deficit		**(365,655)**	(382,174)
Hedging reserve	***17***	**(70,236)**	(81,881)
Total equity		**(422,219)**	(450,383)
Total equity and liabilities		**2,373,037**	2,394,581

Consolidated statement of financial position (continued)

as at 31 December 2021

The notes on pages 36 to 77 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: 10783654

Consolidated statement of cash flows
for the year ended 31 December 2021

	Note	Group Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Cash flow from operating activities			
Profit before tax		**78,166**	18,649
Adjustments for:			
- Depreciation	*5, 8*	**120,089**	178,083
- Write-down of rolling stock	*5*	**21,685**	12,450
- Depreciation of right-of-use assets	*13*	**429**	684
- Profit on reassessment of lease term	*13*	**(57)**	-
- Write-down of inventory	*5*	**151**	209
- Other gains	*23*	**-**	(11,354)
- Fair value adjustment on derivative financial instrument	*17*	**(13,318)**	5,905
- Gain on disposal of property, plant and equipment		**(5,147)**	(488)
- Unwinding of capitalised borrowing costs	*7*	**455**	2,406
- Finance expense	*7*	**147,407**	171,415
- Finance income	*6*	**(179)**	(624)
- Adjustment for non-cash element of pension charge		**413**	341
Operating cash flow before changes in working capital		**350,094**	377,676
Decrease in finance lease receivables	*14*	**1,083**	998
Decrease/(increase) in trade and other receivables and contract assets	*4,15*	**3,126**	(2,778)
Increase in other liabilities and contract liabilities		**24,331**	33,589
Decrease in provisions		**-**	(36)
Increase in trade and other payables		**4,331**	9,224
Cash flow generated by operating activities		**382,965**	418,673
Taxation paid		**(3,727)**	(22,378)
Interest received	*6*	**179**	624
Net cash generated by operating activities		**379,417**	396,919
Cash flow from investing activities			
Acquisition of property, plant and equipment		**(22,695)**	(69,341)
Proceeds from disposal of property, plant and equipment		**18,578**	488
Movement in amounts owed by group undertakings	*34.2*	**8**	(8)
Net cash utilised in investing activities		**(4,109)**	(68,861)
Cash flow from financing activities			
Settlement of derivatives	*17*	**-**	(52,966)
External borrowings raised	*23*	**-**	340,347
External borrowings paid	*24*	**(39,927)**	(300,000)
Bank loans paid	*24*	**(6,127)**	(85,000)
Repayment of lease liability	*16*	**(1,043)**	(1,034)
Interest paid on bonds	*24*	**(85,631)**	(101,717)
Interest paid on loan from Eversholt UK Rails Limited	*24*	**(47,891)**	(48,023)
Profit Participating Shares dividend paid	*24*	**(265)**	(254)
Interest paid on swaps	*24*	**(7,553)**	(17,625)
Interest paid on bank loans	*24*	**-**	(220)
Capitalised transaction fees	*24*	**(116)**	(2,481)
Other financing fees		**(1,425)**	(1,727)
Dividends paid	*29*	**(41,800)**	(46,500)
Net cash utilised in financing activities		**(231,778)**	(317,200)
Net movement in cash and cash equivalents		**143,530**	10,858
Net foreign exchange differences	*17*	**-**	(1,287)
Cash and cash equivalents at the beginning of the year		**81,534**	71,963
Cash and cash equivalents at the end of the year	*21*	**225,064**	81,534

Consolidated statement of changes in equity

for the year at 31 December 2021

	Note	Share capital £'000	Other reserve £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2020		-	13,672	(51,492)	(343,740)	(381,560)
Profit for the year		-	-	-	9,601	9,601
Realised loss on cash flow hedges to the Income Statement	*17*	-	-	1,153	-	1,153
Effective portion of changes in fair value of cash flow hedges	*17*	-	-	(52,003)	-	(52,003)
Realised loss on cash flow hedges transferred to Income statement	*17*	-	-	353	-	353
Realised loss on cash flow hedges to Property, plant and equipment	*17*	-	-	11,447	-	11,447
Tax credit on effective portion of changes in fair value of cash flow hedges	*17*	-	-	8,661	-	8,661
Actuarial loss on defined benefit scheme after tax		-	-	-	(1,535)	(1,535)
Total comprehensive (expense)/ income		-	-	(30,389)	8,066	(22,323)
Dividend paid	*29*	-	-	-	(46,500)	(46,500)
Balance at 31 December 2020		**-**	**13,672**	**(81,881)**	**(382,174)**	**(450,383)**
Profit for the year		**-**	**-**	**-**	**54,557**	**54,557**
Realised loss on cash flow hedges to the Income statement	***17***	**-**	**-**	**961**	**-**	**961**
Effective portion of changes in fair value of cash flow hedges	***17***	**-**	**-**	**3,894**	**-**	**3,894**
Realised loss on cash flow hedges transferred to Income statement	***17***	**-**	**-**	**4,242**	**-**	**4,242**
Realised gain on cash flow hedges to Property, plant and equipment	***17***	**-**	**-**	**(1,188)**	**-**	**(1,188)**
Tax credit on effective portion of changes in fair value of cash flow hedges	***17***	**-**	**-**	**3,736**	**-**	**3,736**
Actuarial gain on defined benefit scheme after tax		**-**	**-**		**3,762**	**3,762**
Total comprehensive income		**-**	**-**	**11,645**	**58,319**	**69,964**
Dividend paid	***29***	**-**	**-**	**-**	**(41,800)**	**(41,800)**
Balance at 31 December 2021		**-**	**13,672**	**(70,236)**	**(365,655)**	**(422,219)**

Dividends of £410,000 per share were paid during the year (2020: £456,000 per share).

"Other reserves" arose as a consequence of the 2017 restructure, by which the Company acquired 100% of the share capital of Eversholt Investment Limited from Eversholt UK Rails Limited. The Group is accounted for under merger accounting principles, on the basis that the Company and Eversholt Investment Limited were controlled by UK Rails S.A R.L both before and after the group reconstruction. There was therefore no loss of control of the subsidiary undertakings during the restructure. The results of the Group have been (and continue to be) prepared on the basis that the Group has always existed in its current form.

The amount in Other reserves is the difference on consolidation arising from the change in the head of group post the reorganisation, being the difference between the share capital and share premium from the previous head of the group (Eversholt Investment Limited) and the new head (Eversholt UK Rails (Holding) Limited).

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

1. General information

Eversholt UK Rails (Holding) Limited is a private company incorporated in England and Wales and is limited by shares (see note 27). 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.

These financial statements comprise the consolidated financial statements of Eversholt UK Rails (Holding) Limited and subsidiaries ("Group"), together with the company only financial statements of Eversholt UK Rails (Holding) Limited ("Company").

The statutory consolidated financial statements are presented for the first time for the year ended 31 December 2021 and include comparative information. For years ended before 1 January 2021, the Group:

- Applied the exemptions, as appropriate, in sections 400 and 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements; and
- Prepared non–statutory consolidated financial statements solely for the purpose of meeting the reporting requirements of the Financing Documents, entered into by certain of the subsidiaries of the Company on 4 November 2010 and to which the Company acceded on 28 June 2017. These statements were in relation to the group comprising the Company and its subsidiaries except for the results for Eversholt Rail (365) Limited and referred to as the "Security Group". Eversholt Rail (365) Limited was placed into liquidation on 19 August 2019 and was derecognised as an investment from that date. For the purposes of these financial statements therefore, the terms "Group" and "Security Group" can now be used interchangeably.

2.1 Basis of consolidation

All subsidiaries are consolidated from the date that the Company gains control.

The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The acquisition method of accounting is used when subsidiaries are acquired by the Group. The cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of completion. Acquisition-related costs are recognised as an expense in the Income statement in the period in which they are incurred. The acquired assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition.

Entities that are controlled by the Company are consolidated until the date that control ceases. All intercompany transactions are eliminated on consolidation.

2.2 Compliance with IFRS

The consolidated financial statements of the Group have been prepared on the historical cost basis except for derivative financial instruments measured at fair value. These financial statements have been prepared in accordance with IFRSs, issued by the IASB and endorsed for use in the UK by the UK Endorsement Board, referred to as "'UK-adopted IFRS".

The concept of "UK adoption" has been introduced as a consequence of the UK's withdrawal from the EU and the end of the corresponding transition arrangements on 31 December 2020. 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.

2. Basis of preparation (continued)

2.2 Compliance with IFRS (continued)

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.

2.3 Standards and interpretations issued by the IASB

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

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

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

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

At 31 December 2021, a number of standards and amendments to standards have been issued by the IASB, which are not effective for the Group’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).

2. Basis of preparation (continued)

2.3 Standards and interpretations issued by the IASB (continued)

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).

2.4 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 Group as lessee

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

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

Lease payments comprise fixed payments. If applicable, lease payments also include:

- Variable payments determined by an index or rate;
- Amounts expected to be paid under a residual value guarantee;
- The exercise price of a purchase option, if reasonably certain that the option will be exercised; and
- Any payment due on lease termination, if the lease term reflects such termination.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect lease payments.

The lease liability (with consequent adjustment to the right-of-use asset) is re-measured if:

- The lease term changes or there is a change in the assessment of whether a purchase option will be exercised - the liability is updated to equal the present value of the revised payments, using a revised Discount rate at that time.
- The lease payments change because of a change in the rate/index or expected residual value guarantee payment - the liability is updated to equal the present value of the revised payments, using the original discount rate. Revised discount rates are used if payment changes arise from a floating interest rate change.
- A lease is modified and the change is not accounted for as a new lease – the liability is updated to equal the present value of the revised cashflows, using a revised discount rate.

The right-of-use asset comprises the initial measurement of the lease liability, lease payments made by lease commencement and any initial direct costs. Depreciated straight-line over the lease term, it is subsequently measured at cost less accumulated depreciation and impairment losses.

The Group 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 Group enters into operating lease arrangements as lessor with respect to rolling stock and other railway assets, classified as Property, plant and equipment (note 12).

3. Summary of significant accounting policies (continued)

3.1 Accounting for lease transactions (continued)

The Group as lessor (continued)

If the Group is an intermediate lessor, it accounts for the headlease and the sublease as two separate arrangements. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising under the headlease.

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

Amounts due from lessees under a finance lease are recognised at an amount equal to the Group'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 Group's net investment in respect of the lease.

3.2 Finance income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability on initial recognition. When calculating the effective interest rate, the Group 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 Group 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, together with interest on overdue tax.

3.3 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".

3.4 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 Group intends to settle on a net basis and the legal right to offset exists.

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

3. Summary of significant accounting policies (continued)

3.4 Income tax (continued)

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 accordance with IFRS 3 “Business Combinations” rolling stock and other railway assets were restated to their fair value upon acquisition of the Group following a business combination in December 2010.

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.

Equipment, fixtures and fittings are stated at cost, being the fair value at acquisition date less any impairment losses and depreciation calculated on a straight-line basis to write-down the assets over 2 to 5 years.

Assets held under finance leases are depreciated over the expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The depreciation charge is included in the Income statement as detailed in notes 5 and 8.

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.

3. Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

At each reporting date, the Group 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 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 Group classifies investments in entities which it controls as subsidiaries. The Group’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 Group’s Statement of financial position when the Group 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 the assets are managed and their cash flow characteristics.

The Group holds the following classes of financial instruments:

Trade and other receivables

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

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

Cash and cash equivalents

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

Financial liabilities

Financial liabilities are 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.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Classification and measurement (continued)

Financial liabilities (continued)

The Group 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 and Contract assets which result from transactions within the scope of IFRS 15 and which do not contain a significant financing component; and
- Finance lease receivables which are outside the scope of IFRS 9 for classification and measurement purposes, but in the scope for impairment.

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

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

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

Restructuring/renegotiation of financial instruments

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

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

Offsetting financial assets and financial liabilities

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

Derivatives and hedge accounting

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

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Derivatives and hedge accounting (continued)

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 cashflows are still expected to occur.

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

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.

Interest rate benchmark reform

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

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.

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).
- 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 Group’s financing activities, through which the Group 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 income, costs, contract assets and liabilities

Following the industry standard and as acknowledged by legislation, heavy maintenance services are provided to successive lessees based on a whole-of-life model. Amounts received under these arrangements that relate to maintenance services to be performed in future years are included in contract liabilities. When maintenance services are performed, the cost of which will be recovered under these arrangements only in future years, the future recoverable amount is included in contract assets. Revenue from maintenance services rendered is recognised when the services are provided and performance obligations satisfied. In all cases maintenance costs are expensed as incurred.

3. Summary of significant accounting policies (continued)

3.12 Retirement benefit obligations

The Group provides defined benefit and defined contribution schemes for directors and staff. The defined benefit scheme is funded by contributions partly from the employees and partly from the Group at rates assessed by an independent actuary. These contributions are invested separately from the Group's assets.

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in Other comprehensive income and all other expenses related to defined benefit plans in administrative expense in the Income statement.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The defined benefit liability recognised in the Statement of financial position represents the fair value of plan assets less present value of defined benefit obligations adjusted for unrecognised past service costs.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

3.13 Inventories

Inventories are stated at the lower of cost and net realisable value.

3.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The provision is recognised as the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

3.15 Preference shares

Preference shares issued by the Group are classified as a liability where the holder of these shares has a fixed entitlement to a dividend. The dividend payable is recorded within finance expense.

3.16 Use of judgements, estimates and assumptions

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

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

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

3. Summary of significant accounting policies (continued)

3.16 Use of judgements, estimates and assumptions (continued)

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

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

a. Valuation of defined benefit retirement obligation

In making their estimate of the valuation of the defined benefit pension obligation, the Directors have made a number of assumptions, based on advice from an independent actuary. These assumptions are more fully described in note 31.

b. Value in use of rolling stock assets

The Group undertakes a review of carrying values of its rolling stock assets at least annually.

If there is an 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 market pre-tax discount rate incorporating the time value of money and asset specific risks.

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 Group'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

c. Tax

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

The Group, other than above, does not have any other key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting year that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

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

4. Revenue from contracts with customers

4.1 Revenue information

The Group generates revenue primarily from the rental of rolling stock assets under operating leases and where applicable, from the provision of maintenance services. Total income can be analysed as follows:

	Group	
	Year ended 31 December 2021 £'000	**Year ended 31 December 2020 £'000**
Operating lease rental income	**359,741**	390,196
Finance lease income	**443**	528
Revenue from contracts with customers		
- Maintenance income	**61,737**	42,877
- Other income	**4,227**	5,087
	426,148	438,688

Maintenance income

Maintenance income from contracts with customers arises wholly in the UK and is recognised as services are provided over time. Revenue (and the terms of payments by customers) is determined by reference to transaction prices within formal contracts between the Group and its customers which are adjusted periodically by reference to pricing indices.

Maintenance revenue is recognised when control of the service is transferred to the customer. This is measured by reference to consideration specified in the contract with a customer and maintenance expenditure incurred (i.e. applying an input method, as being representative of work performed and therefore performance obligations being satisfied). Contract liabilities are expected to be recognised as revenue over the course of contracts (which are typically 10 years or less when first written), as expenditure is incurred.

The transaction price allocated to (partially) unsatisfied performance obligations as at 31 December 2021 is set out below.

As maintenance expenditure is incurred, the Group expects that these performance obligations will be satisfied (i.e. income will be generated) in the following periods:

	2021 £'000	**2020 £'000**
Within 1 year	**41,427**	43,556
1-5 years	**104,840**	98,192
	146,267	141,748

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

4. Revenue from contracts with customers (continued)

4.1 Revenue information (continued)

Other income

Other income primarily relates to the provision in the UK of asset management services £4,227,000 (2020: £5,087,000).

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2021 is set out below.

Performance obligations are expected to be fulfilled (i.e. income will be generated) in relation to customers in the following periods:

	2021 £'000	2020 £'000
Within 1 year	**2,600**	3,255
1-2 years	**1,600**	3,255
2-5 years	**4,800**	10,764
>5 years	**14,800**	33,360
	23,800	50,634

4.2 Contract balances

The following table provides information about contract assets and contract liabilities from contracts with customers.

Contract assets, contract liabilities and trade receivables are as follows:

		Group	
	As at 31 December 2021 £'000	As at 31 December 2020 £'000	As at 01 January 2020 £'000
Contract assets	**2,855**	2,037	4,568
Contract liabilities	**10,567**	53,364	23,996
Trade receivables	**9,380**	8,069	8,326

The contract assets relate to the Group's rights to consideration for services provided but not billed at the reporting date. The contract assets are reduced as the customer is billed for services in accordance with the contracted billing profile and any necessary performance obligations are satisfied.

The contract liabilities relate to consideration received from customers for maintenance of rolling stock in advance of related services being provided.

The amount of £53,364,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the year ended 31 December 2021 (2020: £23,996,000).

Current year movements on these amounts can be attributed to normal business activity (i.e. the recognition of revenue; maintenance services performed; amounts invoiced; and consideration for services received in advance of performing the maintenance activity). There are no adjustments to performance obligations satisfied in the prior year.

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

5. Cost of sales

	Group Year ended 31 December 2021 £'000	Group Year ended 31 December 2020 £'000
Depreciation – rolling stock and other railway assets	**(119,651)**	(177,837)
Write-down of rolling stock (see note 12)	**(21,685)**	(12,450)
Depreciation – right-of-use asset – other railway assets	**(196)**	(195)
Maintenance cost	**(53,775)**	(38,060)
Write-down in the value of inventories	**(151)**	(209)
	(195,458)	(228,751)

6. Finance income

	Group Year ended 31 December 2021 £'000	Group Year ended 31 December 2020 £'000
Bank interest	**179**	624

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

7. Finance expense

	Group Year ended 31 December 2021 £'000	Group Year ended 31 December 2020 £'000
Interest payable to Eversholt UK Rails Limited	**(47,891)**	(48,023)
Profit participating preference share dividend	**(270)**	(255)
Interest payable on bank loans	**-**	(175)
Interest payable on bonds	**(85,349)**	(99,610)
Other finance costs	**(3,931)**	(3,743)
Fees payable	**(1,720)**	(1,716)
Unwinding of capitalised borrowing costs	**(455)**	(690)
Finance expense in relation to financial liabilities carried at amortised cost	**(139,616)**	(154,212)
Transfer from hedging reserve (note 17)	**(4,242)**	(353)
Lease liability interest (note 16)	**(69)**	(114)
Interest payable in relation to swaps	**(7,456)**	(17,203)
Other interest costs	**3,521**	(1,939)
Total	**(147,862)**	(173,821)

Other interest costs relate to interest on overdue tax that was accrued at 31 December 2020. Following the resolution of a number of outstanding issues with the tax authorities (see note 11), this interest is no longer due. Therefore, the interest accrual has been released as part of "finance expense"

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

8. Administrative expense

Administrative expense includes:	Group Year ended 31 December 2021 £'000	 Year ended 31 December 2020 £'000
Foreign exchange (loss)/gain	**(4)**	8
Depreciation – other assets	**(438)**	(246)
Depreciation – right-of-use assets	**(233)**	(489)
Profit on reassessment of lease term	**57**	-
Defined contribution pension costs	**(779)**	(781)
Fees payable to the Company's auditor for the audit of the Group's annual financial statements	**(479)**	(365)
Fees payable to the Company's auditor		
- For non-audit assurance services*	**-**	(45)

*Non-audit services provided by the auditor in 2020 comprise of fees in relation to bond prospectus comfort letter.

9. Staff numbers and costs

The average number of persons employed by the Group (including Directors of the Company and of its subsidiaries) during the year was as follows:

	Group Year ended 31 December 2021 Number	 Year ended 31 December 2020 Number
Directors	**5**	5
Operations	**44**	46
Administration	**53**	56
	102	107

The aggregate payroll costs of these persons were as follows:

	Group Year ended 31 December 2021 £'000	 Year ended 31 December 2020 £'000
Wages and salaries	**(12,047)**	(11,231)
Social security costs	**(1,552)**	(1,436)
Contributions to defined contribution pension scheme	**(779)**	(781)
Defined benefit pension scheme service cost	**(501)**	(420)
	(14,879)	(13,868)

10. Directors' emoluments

	Company Year ended 31 December 2021 £'000	 Year ended 31 December 2020 £'000
Directors' emoluments for services to the Group	**(2,115)**	(2,121)

The emoluments of the highest paid Director, including benefits in kind were £938,000 (2020: £954,000). The accrued pension contributions paid by the Group in respect of the highest paid Director for the year were £nil (2020: £nil). None of the Directors has any share options or interests in the share capital of the Company. The Directors are the only key management personnel.

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

11. Income tax charge

	Note	Group Year ended 31 December 2021 £'000	Group Year ended 31 December 2020 £'000
Current tax			
UK Corporation tax			
- On current year result		**(19,568)**	(3,847)
- On prior years' result		**14,489**	1,705
		(5,079)	(2,142)
Deferred tax			
Origination and reversal of temporary differences	*18*	**1,133**	(6,201)
Change in tax rate	*18*	**(19,118)**	(6,275)
Adjustment in respect of prior year	*18*	**(545)**	5,570
		(18,530)	(6,906)
Income tax charge		**(23,609)**	(9,048)

Corporation tax has been calculated by reference to the current tax rate of 19% (2020:19%).

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 19% (2020: 19%).

	Group Year ended 31 December 2021 £'000	Group Year ended 31 December 2020 £'000
Profit before tax	**78,166**	18,649
Taxation at corporation tax rate 19% (2020: 19%)	**(14,851)**	(3,543)
Change in tax rates	**(19,118)**	(6,275)
Prior years adjustment	**13,944**	7,275
Non-taxable income	**3,469**	2,722
Permanent tax differences	**(3,101)**	(103)
Unrecognised tax attribute*	**(3,952)**	(9,124)
Income tax charge	**(23,609)**	(9,048)

*unrecognised tax attribute relates to interest expense disallowed for tax purposes in the financial year under the Corporate Interest Restriction (CIR) rules. The Group does not expect to have sufficient interest allowance in future years for the asset to unwind and as such a deferred tax asset has not been recognised.

In addition to the amount charged to the Income statement, the aggregate amount of deferred tax relating to components of other comprehensive income, resulted in a gain of £3,196,000 recognised in total comprehensive income (2020: £9,183,000 gain).

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

11. Income tax charge (continued)

Tax receivable in the Statement of financial position

The Group's tax receivable at 31 December 2021 relates to tax recoverable in relation to prior years.

During 2021, the Group settled a number of outstanding issues with the tax authorities and, as a consequence, it is now estimated that the Group has overpaid tax of £9,727,000 for these years. This has led to a credit included in the prior year adjustment as shown in the above tax charge analysis. The tax receivable amount is the Group's expected value of amounts to be recovered, determined by reference to the measurement principles of IFRIC 23 Uncertainty over Income Tax Treatments.

12. Property, plant and equipment

	Other assets £'000	Rolling stock and other railway assets £'000	Total £'000
Cost			
Balance at 1 January 2020	3,347	3,476,930	3,480,277
Additions	365	80,576	80,941
Disposals	-	(37,078)	(37,078)
Balance at 31 December 2020	**3,712**	**3,520,428**	**3,524,140**
Additions	**12**	**21,527**	**21,539**
Disposals	**(3,378)**	**(269,498)**	**(272,876)**
Balance at 31 December 2021	**346**	**3,272,457**	**3,272,803**
Accumulated depreciation and write downs			
Balance at 1 January 2020	2,997	1,133,592	1,136,589
Charge for the year	246	177,837	178,083
Write-down	-	12,450	12,450
Disposals	-	(37,078)	(37,078)
Balance at 31 December 2020	**3,243**	**1,286,801**	**1,290,044**
Charge for the year	**438**	**119,651**	**120,089**
Write-down	**-**	**21,685**	**21,685**
Disposals	**(3,378)**	**(256,067)**	**(259,445)**
Balance at 31 December 2021	**303**	**1,172,070**	**1,172,373**
Carrying value at 31 December 2021	**43**	**2,100,387**	**2,100,430**
Carrying value at 31 December 2020	469	2,233,627	2,234,096

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.

Other assets relate to equipment, fixtures and fittings.

The depreciation charge on rolling stock is included within cost of sales in the Income statement. The depreciation on other assets is included in administrative expense. Following a review of recoverable values, the Company has written down the net book value of rolling stock by £21,685,000 (2020: £12,450,000). This reflects the extent to which the net book value of rolling stock exceeded recoverable value.

2021 additions include a credit from other comprehensive income (being a realised gain on cashflow hedges) of £1,188,000 (2020: £11,447,000 debit), bank loan capitalised interest of £32,000 (2020: £96,000) and bond capitalised interest of £nil (2020: £57,000).

All rolling stock 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. Property, plant and equipment (continued)

Property, plant and equipment included software in relation to configuration and customisation costs. During the year, the Group has fully depreciated software spend that had net book value of £228,000 and remaining useful economic life of between 5 months and 4 years at 31 December 2020. This reflects the Company's implementation of April 2021 decision by the IFRS Interpretations Committee, in relation to the configuration or customisation of application software. The Group has concluded that this spend no longer qualified for ongoing capitalisation. The disposals showing under "cost" and "depreciation" included amounts in relation to this software.

13. Right-of-use assets

	Land and buildings £'000	Plant and equipment £'000	Other railway assets and land £'000	Total £'000
As at 1 January 2020	2,436	17	1,851	4,304
Depreciation charge	(482)	(7)	(195)	(684)
As at 31 December 2020	**1,954**	**10**	**1,656**	**3,620**
Depreciation charge	**(223)**	**(10)**	**(196)**	**(429)**
Re-measurement*	**(1,731)**	-	**-**	**(1,731)**
As at 31 December 2021	**-**	**-**	**1,460**	**1,460**

*The re-measurement relates to the Group's reassessment of its option to early terminate the lease of premises at 210 Pentonville Road, London, N1 9JY, United Kingdom (see note 16). The reassessment has led to a profit of £57,000.

14. Finance lease receivables

	Group	
	2021 £'000	2020 £'000
Gross investment in finance leases		
Amounts falling due:		
No later than one year	**1,381**	1,381
Later than one year and no later than five years	**2,302**	3,683
Total gross investment in finance leases	**3,683**	5,064
Unearned finance income	**(348)**	(646)
Net investment in finance leases less provisions	**3,335**	4,418
Amortisation of finance lease receivables		
Amounts falling due:		
No later than one year	**1,171**	1,083
Later than one year and no later than five years	**2,164**	3,335
Present value of minimum lease receivables	**3,335**	4,418
Aggregate finance lease income receivable in the year	**443**	528

The Group has entered into a finance leasing arrangement for one of its depots. This lease is due to expire in 3 years' time.

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

Finance lease receivable balances are secured over the depot. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

15. Trade and other receivables

	Group 2021 £'000	Group 2020 £'000
Trade receivables	**9,380**	13,762
Other receivables	**2,695**	2,257
	12,075	16,019

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.

16. Lease liabilities

	Land and buildings £'000	Plant and equipment £'000	Other railway assets - land £'000	Total £'000
As at 1 January 2020	3,576	18	2,391	5,985
Interest charge	67	-	47	114
Payments	(766)	-	(268)	(1,034)
As at 31 December 2020	**2,877**	**18**	**2,170**	**5,065**
Interest charge	**27**	**-**	**42**	**69**
Payments	**(744)**	**(18)**	**(281)**	**(1,043)**
Re-measurement*	**(1,788)**	**-**	**-**	**(1,788)**
As at 31 December 2021	**372**	**-**	**1,931**	**2,303**

*During the year, the Group has revised the term of its lease of the premises at 210 Pentonville Road, London, N1 9JY, United Kingdom. The lease contains an option to early terminate in June 2022 and for years prior to 2021, the Group determined that it was reasonably certain not to exercise that option and therefore the lease term would expire in June 2025.

In light of the decision to move to new premises, the Group has exercised this option and therefore, the lease term will end in June 2022. This conclusion has given rise to the re-measurement shown above, together with a corresponding adjustment to the right-of-use asset (see note 13).

Total lease liabilities can be analysed as follows:

	2021 £'000	2020 £'000
Current	**603**	970
Non-current	**1,700**	4,095
	2,303	5,065

Maturity of lease liabilities

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

	2021 £'000	2020 £'000
Current	**640**	1,070
In more than one year but not more than two years	**268**	827
In more than two years but not more than five years	**466**	2,313
In more than five years	**1,171**	1,289
Non-Current	**1,905**	4,429

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

17. Derivative financial instruments

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

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

	Note	2021 £'000	2020 £'000
Non-current assets			
Fair value - excluding accrued interest	***See below***	**16,415**	46,883
Accrued interest	***24***	**1,525**	1,442
		17,940	48,325
Non-current liabilities			
Fair value - excluding accrued interest	***See below***	**(152,994)**	(200,674)
Accrued interest	***24***	**(3,873)**	(3,887)
		(156,867)	(204,561)
Total derivative financial instruments (excluding accrued interest)		**(136,579)**	(153,791)
Total accrued interest	***24***	**(2,348)**	(2,445)

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

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

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

17. Derivative financial instruments (continued)

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

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

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

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

Movement in fair value of Derivative financial instruments

	Foreign exchange forward contracts	Interest rate swap contracts		
	Current hedge accounted £'000	Not hedge accounted £'000	Current hedge accounted £'000	Total £'000
Balance as at 1 January 2021	**-**	**(140,615)**	**(13,176)**	**(153,791)**
Unrealised gain through the Income statement				
- Hedge ineffectiveness	**-**	**-**	**626**	**626**
- Change in fair value of non-hedge accounted derivatives	**-**	**12,692**	**-**	**12,692**
	-	**12,692**	**626**	**13,318**
Unrealised gain through Other comprehensive income	**-**	**-**	**3,894**	**3,894**
Balance as at 31 December 2021	**-**	**(127,923)**	**(8,656)**	**(136,579)**
Balance as at 1 January 2020	(458)	(100,062)	(49,616)	(150,136)
Unrealised gain/(loss) through the Income statement				
- Hedge ineffectiveness	2	-	851	853
- Change in fair value of non-hedge accounted derivatives	-	(6,758)	-	(6,758)
	2	(6,758)	851	(5,905)
- Settlement	-	52,966	-	52,966
- Transfer*	-	(86,761)	86,761	-
Unrealised gain/(loss) through Other comprehensive income	456	-	(51,172)	(50,716)
Balance as at 31 December 2020	-	(140,615)	(13,176)	(153,791)

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

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

17. Derivative financial instruments (continued)

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

Movement in Hedging reserve

	Foreign exchange forward contracts	Interest rate swap contracts		
	Current hedge accounted £'000	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance as at 1 January 2021	**(1,115)**	**1,343**	**81,653**	**81,881**
Unrealised gain through Other comprehensive income	**-**	**(3,894)**	**-**	**(3,894)**
Effective portion of changes in fair value of cash flow hedges	**-**	**(3,894)**	**-**	**(3,894)**
Realised loss on cash flow hedges to Income statement	**-**	**-**	**(961)**	**(961)**
Release to Property, plant and equipment	**1,189**	**-**	**(1)**	**1,188**
Release to Income statement	**-**	**-**	**(4,242)**	**(4,242)**
Income tax on Other comprehensive income	**(227)**	**874**	**(4,383)**	**(3,736)**
Balance as at 31 December 2021	**(153)**	**(1,677)**	**72,066**	**70,236**

	Foreign exchange forward contracts		Interest rate swap contracts		
	Current hedge accounted £'000	Terminated hedge accounted £'000	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance as at 1 January 2020	7,598	72	39,948	3,874	51,492
Unrealised (gain)/loss through Other comprehensive income	(456)	-	51,172	-	50,716
Revaluation of EUR cash deposits through Other comprehensive income	1,287	-	-	-	1,287
Effective portion of changes in fair value of cash flow hedges	831	-	51,172	-	52,003
Realised loss on cash flow hedges to Income statement	-	-	-	(1,153)	(1,153)
Release to Property, plant and equipment	(11,360)	(87)	-	-	(11,447)
Transfer**	-	-	(97,644)	97,644	-
Release to Income statement	-	-	-	(353)	(353)
Income tax on Other comprehensive income	1,816	15	7,867	(18,359)	(8,661)
Balance as at 31 December 2020	(1,115)	-	1,343	81,653	81,881

**Transfer relates to the termination of a hedge relationship in June 2020. The hedged item, being forecast interest costs, is still expected to arise and therefore related amounts have been reclassified accordingly. The gross amount transferred is £97,644,000 and related deferred tax is £18,552,000.

17.1 Foreign exchange forward contracts

As at 31 December 2020, the Group settled all foreign exchange forward contracts which had been contracted to hedge the variability in functional currency equivalent cash flows associated with committed EUR denominated capital expenditure. On inception, each contract was designated in a hedge accounting relationships.

Hedge ineffectiveness is attributable to differences between actual and expected dates of cashflows 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 the 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.

17. Derivative financial instruments (continued)

17.1 Foreign exchange forward contracts (continued)

During the year a gain of £1,188,000 (2020: £11,447,000 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 32.5 for details of foreign exchange risk management.

17.2 Interest rate swap contracts

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

Cumulative unrealised losses of £72,066,000 (2020: £81,653,000) relating to Interest rate swaps terminated in prior years remain in the hedging reserve and will be recognised in the Income statement in future years, when the original hedged future cash flows occur. At 31 December 2021, the Group held interest rate swaps with a fair value liability of £127,923,000 (2020: £140,615,000 liability) which were not designated in hedging relationships for accounting purposes.

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

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

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

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

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

See note 32 for details of interest rate risk management.

17. Derivative financial instruments (continued)

17.3 Replacement of LIBOR as an interest rate benchmark

During 2021, the Group replaced LIBOR as the reference interest rate in all financial instruments that contained LIBOR as the benchmark interest rate. Instruments impacted are interest rate swaps and borrowings, as described in notes 17 and 23, together with the revolving credit facility referenced in note 32.4. Interest will be paid under the new rate for the first time in early 2022. In each case, LIBOR has been replaced by SONIA plus an appropriate credit adjustment spread, determined at the date of change. The change in rate has had no material impact and the replacement rate does not introduce any significant change in risk. Therefore, the Group's current risk management strategy remains in place.

18. Deferred tax

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

	Group	
	2021 £'000	**2020 £'000**
Deferred tax liabilities	**102,289**	81,826
Deferred tax assets	**(47,690)**	(42,561)
	54,599	39,265

In assessing the recoverability of deferred tax assets, the Group 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 Group 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 balance sheet date.

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

	Capital Allowances £000's	**Provision £000's**	**Fair value of derivatives £000's**	**Retirement benefit obligations £000's**	**Tax losses £000's**	**Other tax attributes £000's**	**Total £000's**
At 1 January 2020	75,364	(421)	(28,986)	(1,108)	(3,035)	(272)	41,542
(Credit) / charge to Income statement	(6,569)	1	8,941	(64)	3,847	45	6,201
Credit to Other comprehensive income	-	-	(7,420)	(392)	-	-	(7,812)
Effect of change in tax rate:							
- Income statement	8,883	(50)	(2,169)	-	(357)	(32)	6,275
- Other comprehensive income	-	-	(1,241)	(130)	-	-	(1,371)
Prior year adjustments	4,148	(108)	-	-	(9,610)	-	(5,570)
At 31 December 2020	**81,826**	**(578)**	**(30,875)**	**(1,694)**	**(9,155)**	**(259)**	**39,265**
(Credit) / charge to Income statement	**(2,824)**	**-**	**1,724**	**(78)**	**-**	**45**	**(1,133)**
Charge to Other comprehensive income	**-**	**-**	**1,503**	**817**	**-**	**-**	**2,320**
Effect of change in tax rate:							
- Income statement	**23,479**	**(147)**	**(3,011)**	**(25)**	**(1,128)**	**(50)**	**19,118**
- Other comprehensive income	**-**	**-**	**(5,239)**	**(277)**	**-**	**-**	**(5,516)**
Prior year adjustments	**(192)**	**113**	**(67)**	**-**	**691**	**-**	**545**
At 31 December 2021	**102,289**	**(612)**	**(35,965)**	**(1,257)**	**(9,592)**	**(264)**	**54,599**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

18. Deferred tax (continued)

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

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

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

The Group has an unrecognised deferred tax asset of £17,183,000 (2020: £9,154,330) in relation to interest expense disallowed for tax purposes in the financial year under the CIR rules.

19. Investments in subsidiaries

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

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

* Indirect subsidiaries
** Registered office: Riverside One, Sir John Rogerson’s Quay, Dublin 2, D02 X576
*** 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.

20. Inventory

	Group	
	2021 £’000	**2020 £’000**
Rolling stock spares	**151**	302

Write-down in the value of inventories recognised during the year was £151,000 (2020: £209,000) (note 5). Stock is measured at the lower of cost and net realisable value.

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

21. Cash and cash equivalents

	Group 2021 £'000	Group 2020 £'000
Cash	**225,064**	81,534
Cash and cash equivalents	**225,064**	81,534

Within cash and cash equivalents there is a deposit of £2,600,000 (2020: £2,600,000) which is restricted as it provides security for the Profit Participating Shares issued by a subsidiary. £500,000 of cash and cash equivalents (2020: £500,000) is restricted cash in line with the terms of an agreement with the security trustee for the Group's secured creditors.

22. Trade and other payables

	Group 2021 £'000	Group 2020 £'000
Trade payables	**22,373**	20,322
Lease rentals received in advance	**26,039**	24,855
Maintenance, acquisition and administrative accruals	**18,894**	21,322
Other accruals	**244**	243
	67,550	66,742

23. Borrowings

	Group 2021 £'000	Group 2020 £'000
Current		
Interest accrued	**18,053**	18,330
Bonds	**54,212**	39,927
Other loan	**-**	6,095
Capitalised transaction costs	**(518)**	(532)
	71,747	63,820
Non-current		
Bonds	**1,879,606**	1,930,423
Capitalised transaction costs	**(5,656)**	(5,981)
Profit Participating Shares	**2,500**	2,500
Loan from Eversholt UK Rails Limited	**340,562**	340,562
	2,217,012	2,267,504
Total borrowings	**2,288,759**	2,331,324

The Group finances itself using a Common Documents platform. This means that all covenants on the performance and management of the Group apply to all Senior lenders. Failure to comply with these may result in Bank loans and Bonds being repayable on demand. The Group was in compliance with the covenants during 2021 and 2020.

All Senior lenders are secured against substantially all of the Group's assets by way of fixed and floating charges. The security is held by The Law Debenture Trust Corporation plc (in its capacity as Security Trustee). The Group is not permitted to create additional security over its assets apart from in limited circumstances that have been agreed with its financiers.

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

23. Borrowings (continued)

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

None of the Bonds is puttable.

*The above table includes bond issuance of £500,000,000 in June 2020, of which £159,700,000 was used to repay £128,700,000 of the £400,00,000 bonds otherwise maturing in 2025 (“2025 Debt”). The principal amount of 2025 debt therefore reduced to £271,300,000 as at 31 December 2021. The part repayment was accounted for as a debt modification and not as an extinguishment of the original debt and issue of new debt under IFRS 9 Financial Instruments. This was on the basis that the terms of the debt had not substantially changed. Accordingly, the carrying value of the existing debt was restated to equal the present value of modified cashflows, giving rise to a gain of £11,354,000 recognised in the Income statement in 2020. The revised cashflows were discounted at the effective interest rate associated with the original 2025 Debt which equates to a carrying value of £117,300,000 included in non-current borrowings above. £25,641,000 of the bond was repaid in 2021.

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

In 2020, the Group received the remaining £340,347,000 proceeds from the new issue in cash, which was used to settle £300,000,000 of bonds that matured in December 2020 (a net of £40,347,000 shown in the table below – note 24). The Group also used the proceeds to part repay outstanding bank loans.

The Profit Participating Shares (“PPS”) carry a right to quarterly dividends. The PPS dividend has two parts. The first part confers a right to a LIBOR based return. The second part confers a right to 0.1% of post-tax profits arising in the issuing company during the reference period. The PPS are classified as a non-current liability as the holders of these shares have a fixed entitlement to a dividend.

See note 17.3 for further details of the Group replacement of LIBOR as the reference rate in its financial instruments.

The loan from Eversholt UK Rails Limited is unsecured and carries a fixed rate of interest. The Group’s rights under this subordinated loan agreement (including its right to repayment) are subject to the terms of the Financing Documents.

Maturity of borrowings

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

	Group	
	2021 £’000	**2020 £’000**
In more than one year but not more than two years	**54,212**	54,212
In more than two years but not more than five years	**433,986**	433,987
In more than five years	**1,734,470**	1,785,286
Transaction costs	**(5,656)**	(5,981)
	2,217,012	2,267,504

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

24. Reconciliation of assets and liabilities arising from financing activities

31 December 2021	As at 31 December 2020 £'000	Non-cash finance expense £'000	Cash Flows payments £'000	As at 31 December 2021 £'000
Financing activities attributable to:				
Liabilities				
Bond interest accrued	**18,248**	**85,349***	**(85,631)**	**17,966**
Swap Interest accrued	**2,445**	**7,456**	**(7,553)**	**2,348**
Profit Participating Share dividends	**82**	**270**	**(265)**	**87**
Bonds	**1,970,349**	**3,396**	**(39,927)**	**1,933,818**
Profit Participating shares	**2,500**	**-**	**-**	**2,500**
Loan from Eversholt UK Rails Limited	**340,562**	**47,891**	**(47,891)**	**340,562**
Other loan	**6,095**	**32*****	**(6,127)**	**-**
	2,340,281	**144,394**	**(187,394)**	**2,297,281**
Assets				
Capitalised transaction costs	**(6,513)**	**455**	**(116)**	**(6,174)**

31 December 2020	As at 31 December 2019 £'000	Non-cash finance expense / (income) £'000	Cash Flows receipts / (payments) £'000	As at 31 December 2020 £'000
Financing activities attributable to:				
Liabilities				
Bond interest accrued	20,298	99,667*	(101,717)	18,248
Swap Interest accrued	2,867	17,203	(17,625)	2,445
Bank loan interest accrued	45	175	(220)	-
Bank loans	85,000	-	(85,000)	-
Profit Participating Share dividends	81	255	(254)	82
Bonds	1,940,000	(9,998)**	40,347	1,970,349
Profit Participating shares	2,500	-	-	2,500
Loan from Eversholt UK Rails Limited	340,562	48,023	(48,023)	340,562
Other loan	5,999	96***	-	6,095
	2,397,352	155,421	(212,492)	2,340,281
Assets				
Capitalised transaction costs	(5,020)	988	(2,481)	(6,513)

*Bond capitalised interest of £nil (2020: £57,000) transferred to Property, plant and equipment (see note 12).

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

***Bank loan capitalised interest of £32,000 (2020: £96,000) is transferred to Property, plant and equipment (see note 12).

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

25. Other liabilities

Other liabilities represent 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 Group's income statement and can be analysed as follows:

	Group	
	2021	**2020**
	£'000	**£'000**
Current	**11,290**	18,206
Non-current	**191,273**	117,357
	202,563	135,563

26. Provisions

	Group	
	2021	**2020**
	£'000	**£'000**
Current	**165**	-
Non-current	**-**	165
	165	165

Provision relates to dilapidations on leased office buildings. Contractual amounts are due to be incurred within the term of lease which has been reassessed to end in June 2022.

	2021	**2020**
	£'000	**£'000**
Balance at beginning of the year	**165**	201
Utilised	**-**	(36)
Balance at the end of the year	**165**	165

27. Share capital

	Company	
	2021	**2020**
	£	**£**
Authorised		
102 Ordinary shares of £1 each (2020: 102)	**102**	102
Allotted, called up and fully paid		
102 Ordinary shares of £1 each (2020: 102)	**102**	102

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

28. Capital commitments

In respect of rolling stock capital expenditure:

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

The above represents all capital commitments.

29. Dividends

For the year ended 31 December 2021 dividends of £41,800,000 were paid (2020: £46,500,000).

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

30. Financial instruments

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

Group					
31 December 2021	***Note***	**Carrying amount**	**Fair value Level 1**	**Fair value Level 2**	**Fair value Level 3**
		£'000	**£'000**	**£'000**	**£'000**
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	***17***	**17,940**		**17,940**	
Finance lease receivables	***14***	**3,335**			
Trade and other receivables	***15***	**12,075**			
Cash and cash equivalents	***21***	**225,064**			
Total financial assets		**258,414**			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	***17***	**157,867**		**156,867**	
Non-derivative instruments					
- Publicly traded bonds	***23***	**1,493,818**	**1,784,692**		
- Fixed rate borrowings	***23***	**340,000**		**383,568**	
- Other borrowings	***23***	**461,115**			
- Trade and other payables	***22***	**67,550**			
Total financial liabilities		**2,519,350**			
Total financial instruments		**(2,260,936)**			

Group					
31 December 2020	***Note***	**Carrying amount**	**Fair value Level 1**	**Fair value Level 2**	**Fair value Level 3**
		£'000	**£'000**	**£'000**	**£'000**
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	***17***	48,325		48,325	
Finance lease receivables	***14***	4,418			
Trade and other receivables	***15***	16,019			
Cash and cash equivalents	***21***	81,534			
Total financial assets		150,296			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	***17***	204,561		204,561	
Non-derivative instruments					
- Publicly traded bonds	***23***	1,530,349	1,892,980		
- Fixed rate borrowings	***23***	340,000		406,692	
- Other borrowings	***23***	467,488			
- Trade and other payables	***22***	66,742			
Total financial liabilities		2,609,140			
Total financial instruments		(2,458,844)			

Carrying value is regarded as a reasonable approximation of fair value, when this is not provided in the above table. Only the derivative financial instruments are measured subsequent to initial recognition at fair value. All derivative financial instruments are grouped into level two, based on the degree to which the fair value is observable. Level two fair value measurements are those derived from inputs other than quoted prices that are observable from active markets either directly or indirectly.

30. Financial instruments (continued)

The non-derivative financial liabilities measured at amortised cost can be reconciled to note 23 as follows:

	2021 **£'000**	**2020** **£'000**
Non-derivative instruments as per above	**2,362,483**	2,404,579
Capitalised transaction costs	**(6,174)**	(6,513)
Trade and other payables	**(67,550)**	(66,742)
Borrowings per note 23	**2,288,759**	2,331,324

31. Retirement benefit obligations

31.1 General description of scheme

Final salary pension

Eversholt Rail Limited, a group undertaking, provides a defined benefit pension scheme to some employees. Eversholt Rail Limited Section (the "Section") is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme. The Section is governed by a trustee board, which is independent of Eversholt Rail Limited.

The Section is a shared cost arrangement whereby Eversholt Rail Limited is only responsible for a share of the cost. The figures reported below therefore represent only Eversholt Rail Limited's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the year are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit. This is for simplicity of presentation and for consistency with the liabilities and assets quoted in the table showing the pension scheme liability or asset at the end of the year.

Employer contributions were 19.65% of Section pay for the year ended 31 December 2021 (19.60% for the year ended 31 December 2020).

The Section is open to new members transferring in from other sections of the Railways Pension Scheme.

Eversholt Rail Limited is exposed to a number of risks relating to the Section including assumptions not being borne out in practice. The most significant risks are as follows:

- Asset volatility: There is the risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Section's defined benefit obligation ("DBO"). The Section holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but gives exposure to volatility and risk in the short-term.
- Change in bond yields: A decrease in corporate bond yields will increase the value placed on the Section's DBO, although this will be partially offset by an increase in the value of the Section's corporate bond holdings.
- Inflation risk: The majority of the Section's DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.
- Life expectancy: An increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.
- Contribution rate: The Scheme Rules give the Scheme Actuary the power to set the contribution rates for Eversholt Rail Limited if no agreement can be reached between the Trustee and that company.

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

31. Retirement benefit obligations (continued)

31.2 Membership data

	31 December 2021	31 December 2020
Active members		
Number	**13**	14
Number with Protected Rights Pension (“PRP”) included	**9**	9
Annual payroll (£’000)	**1,000**	1,100
Average age	**53.1**	52.3
Deferred members		
Number	**42**	47
Total deferred pensions (£’000)	**289**	300
Average age	**56.2**	54.9
Pensioner members (including dependants)		
Number	**57**	53
Estimated annual pension payroll (£’000)	**1,430**	1,400
Average age	**68.5**	68.8

31.3 Summary of assumptions

Section assets	Value at 31 December 2021 £’000	Value at 31 December 2020 £’000
Growth assets	**28,921**	25,609
Government bonds	**10,746**	11,085
Non-government bonds	**9,254**	7,552
Other assets	**163**	307
	49,084	44,553

	31 December 2021 %pa	31 December 2020 % pa
Discount rate	**1.85**	1.30
Price inflation (RPI measure)	**3.45**	2.95
Increases to deferred pensions (CPI measure)	**3.05**	2.60
Pension increases (CPI measure)	**3.45**	3.00
Salary increases plus 0.4% pa promotional salary scale*	**3.05**	2.55

*plus 0.4% pa promotional salary scale.

The assumed average expectation of life in years at age 65 is as follows:

	31 December 2021	31 December 2020
Male currently age 65	**22.6**	22.6
Male currently age 45	**24.2**	24.2
Female currently age 65	**23.7**	23.6
Female currently age 45	**25.6**	25.5

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

31. Retirement benefit obligations (continued)

31.4 Defined benefit liability at end of year

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Active members	**13,310**	12,941
Deferred members	**12,479**	12,977
Pensioner members (incl. dependants)	**31,672**	33,493
Total DBO	**57,461**	59,411
Value of assets at end of year	**(49,084)**	(44,553)
Funded status at end of year	**8,377**	14,858
Adjustment for the members' share of deficit	**(3,351)**	(5,943)
Net defined benefit liability at end of the year	**5,026**	8,915

31.5 Reconciliation of net defined benefit liability

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening net defined benefit liability	**8,915**	6,517
Employer's share of pension expense	**616**	547
Employer contributions	**(203)**	(206)
Total (gain)/loss recognised in Statement of comprehensive income	**(4,302)**	2,057
Closing net defined benefit liability	**5,026**	8,915

31.6 Pension expense

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Employer's share of service cost	**447**	389
Employer's share of administration costs	**54**	34
Total employer's share of service cost	**501**	423
Employer's share of net interest on net defined benefit liability	**115**	124
Employer's share of pension expense	**616**	547

31.7 Other comprehensive (income)/expense

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Gain due to liability experience	**(468)**	(876)
(Gain)/loss due to liability assumption changes	**(472)**	4,343
Return on plan assets greater than discount rate	**(3,362)**	(1,410)
Total (gain)/loss recognised in Statement of comprehensive income	**(4,302)**	2,057

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

31. Retirement benefit obligations (continued)

31.8 Reconciliation of DBO

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening DBO	**59,411**	53,519
Service cost	**741**	645
Interest cost on DBO	**762**	987
Gain on DBO - experience	**(998)**	(1,497)
Gain on DBO – demographic assumptions	**(114)**	(1,123)
(Gain)/loss on DBO - financial assumptions	**(673)**	8,362
Actual benefit payments	**(1,668)**	(1,482)
Closing DBO	**57,461**	59,411

This obligation is projected to mature as follows:

Time period	Expected payments £'000
5 years to 31 December 2026	**9,400**
5 years to 31 December 2031	**11,200**
5 years to 31 December 2036	**12,300**
5 years to 31 December 2041	**12,300**
After 1 January 2042	**38,600**

31.9 Reconciliation of value of assets

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening value of Section assets	**44,553**	42,658
Interest income on assets	**570**	780
Return on plan assets greater than discount rate	**5,415**	2,350
Employer contributions	**203**	206
Employee contributions	**101**	102
Actual benefit payments	**(1,668)**	(1,482)
Administration costs	**(90)**	(61)
Closing value of Section assets	**49,084**	44,553

Tables 31.8 and 31.9 above show the movement in the assets and liabilities of the section as a whole. Some of the figures therefore differ from those in the remaining disclosures which reflect the Group's share of the assets and liabilities associated with the section.

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

31. Retirement benefit obligations (continued)

31.10 DBO sensitivity analysis to significant actuarial assumptions

Year ended 31 December 2021	Sensitivity	Approximate increase in DBO £'000
Discount rate	-0.25% p.a.	2,500
Price inflation (CPI measure)*	+0.25% p.a.	2,300
Salary increases	+0.25% p.a.	200
Life expectancy	+1 year	2,400

Year ended 31 December 2020	Sensitivity	Approximate increase in DBO £'000
Discount rate	-0.25% p.a.	2,800
Price inflation (CPI measure)*	+0.25% p.a.	2,700
Salary increases	+0.25% p.a.	200
Life expectancy	+1 year	2,400

* Including consistent increases to RPI, salary growth and RPI/CPI related pension increase assumptions.

The sensitivity figures above are as at 31 December 2021 and based on the DBO noted in table 31.4 and reflect a reasonable approximation of possible changes.

The Section is subject to a full funding actuarial valuation on a triennial basis. The funding valuation at 31 December 2019 indicated a funding surplus and so no deficit contributions are currently being paid. Employer contributions for the period to 30 June 2021 were 19.6% of Section Pay. Subsequent employer contributions, for the period to 30 June 2024, are 19.7% of Section pay.

The discounted mean term of the Section's liabilities is 18 years. Expected employer contributions for 2021 were £210,000 (2020: £212,000).

32. Risk management

The Group 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, the Group is exposed to residual value risk from its ownership of rail assets and credit risk from leasing arrangements. There are also risks associated with the COVID-19 pandemic, details of which are considered in note 2.4 "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 3.16.

The management of all risks which are significant, together with the quantitative disclosures not already included within the Strategic report, is described in this note.

32.1 Residual value risk

One of the key drivers of the Group's ability to generate the desired return from its assets is the management of residual value risk. This risk arises from operating lease transactions to the extent that the values 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 Group regularly monitors residual value risk exposure by considering the re-leasing potential of its assets. Provision is made to the extent that the carrying values of leased assets exceed the recoverable value.

32. Risk management (continued)

32.1 Residual value risk (continued)

The Group seeks to maximise the reletting potential, and therefore the residual value, of its assets by active management of the technical and commercial utility of these assets.

An assessment is carried out by management at least annually of the commercial value of all operating lease assets, measured as the present value of the net anticipated cash flows arising from ownership over life. This assessment is based on the Group's knowledge of the assets and the rolling stock leasing market.

This assessment provides a basis for measuring the success of the Group in managing its assets, as well as for determining if that value is below the current book value and therefore an impairment provision might be needed.

The Group's asset engineering team regularly visits the operating depots for the purpose of vehicle inspection and technical investigation. The Group has an excellent knowledge of the current condition of the fleet.

The Group has 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 Group works proactively with the train operator to identify opportunities to improve the performance of the fleet. The Group maintains constant 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 Group's exposure to residual value risks or the manner in which these risks are managed and measured.

32.2 Capital risk management

The Board actively monitors the capital structure of the Group 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 Group consists of debt and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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

32.3 Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. The Group'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, to fulfil commitments and to meet obligations under lending and derivative financial instruments.

The Group 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 Group'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 report and analysis;
- Past, current and future events and circumstances that could impinge upon the counterparty's performance and ability to perform and service its obligations as they fall due and meet its commitments as they arise. This will include assessment of actual and potential external events, as well as the Group's internal information;
- The nature of the arrangements with the counterparty and whether there is related collateral/security which can be applied;

32. Risk management (continued)

32.3 Credit risk management (continued)

- The existence of any parties to which the Group 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, contract assets and lease receivables under IFRS 9. In relation to other financial assets, the Group 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 Group’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 Group 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 Group 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 Group and existence of previous financial difficulties).

The Group’s principal exposure to credit risk as at 31 December 2021 amounts to the balance of Trade and other receivables as disclosed in note 15, Contract assets as disclosed in note 4.2, Finance lease receivables as disclosed in note 14, Derivative financial instruments assets disclosed in note 17 and Cash and cash equivalents as disclosed in note 21. The carrying amounts of financial assets, lease receivables and contract 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 or 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 Group defines “default” as where the obligor has failed to meet its obligations under the contract and “credit impaired” where there is objective evidence as to a credit event for the obligor. The definition has been applied historically by the 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 15.

The Group will write off a financial asset where there is no realistic prospect of the financial asset being recovered. In light of the above and having regards to requirement of IFRS 9, the Group considers that an ECL of £622,000 is required at 31 December 2021 (2020: £353,000).

32.4 Liquidity risk management

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

The Group monitors its cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. Cash is managed on a consolidated basis across the Group which enables group undertakings to borrow funds from other group undertakings to meet any shortfall. 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.

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

32. Risk management (continued)

32.4 Liquidity risk management (continued)

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

Group

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2021						
Financial assets						
Finance lease receivables	**3,335**	**3,683**	**-**	**1,381**	**2,302**	**-**
Trade and other receivables	**12,075**	**12,075**	**-**	**12,075**	**-**	**-**
Derivative financial instrument	**17,940**	**19,877**	**-**	**2,777**	**972**	**16,128**
Cash and cash equivalents	**225,064**	**225,064**	**225,064**	**-**	**-**	**-**
	258,414	**260,699**	**225,064**	**16,233**	**3,274**	**16,128**
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	**156,867**	**172,716**	**-**	**10,283**	**30,716**	**131,717**
Amortised cost						
- Trade and other payables	**67,550**	**67,550**	**-**	**67,550**	**-**	**-**
- Borrowings	**2,294,933**	**3,090,189**	**-**	**138,720**	**819,346**	**2,132,123**
	2,519,350	**3,330,455**	**-**	**216,553**	**850,062**	**2,263,840**
Total financial instruments	**(2,260,936)**	**(3,069,756)**	**225,064**	**(200,320)**	**(846,788)**	**(2,247,712)**

Group

	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						
Finance lease receivables	4,418	5,064	-	1,381	3,683	-
Trade and other receivables	16,019	16,019	-	16,019	-	-
Derivative financial instrument	48,325	50,549	-	3,564	13,072	33,913
Cash and cash equivalents	81,534	81,534	81,534	-	-	-
	150,296	153,166	81,534	20,964	16,755	33,913
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	204,561	215,423	-	11,117	42,908	161,398
Amortised cost						
- Trade and other payables	66,742	66,742	-	66,742	-	-
- Borrowings	2,337,837	3,211,179	-	131,627	809,660	2,269,892
	2,609,140	3,493,344	-	209,486	852,568	2,431,290
Total financial instruments	(2,458,844)	(3,340,178)	81,534	(188,522)	(835,813)	(2,397,377)

The borrowings in the above table that are measured at amortised cost can be reconciled to note 23 as follows:

	2021 £'000	2020 £'000
Borrowings as per above	**2,294,933**	2,337,837
Less: transaction costs	**(6,174)**	(6,513)
Borrowings per note 23	**2,288,759**	2,331,324

32. Risk management (continued)

32.5 Market risk management

32.5.1 Foreign exchange risk

The Group hedges against foreign exchange risk on its EUR denominated capital expenditure as described in note 17.

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 17). 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.

32.5.2 Interest rate risk management

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

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

As at 31 December 2021, after adjusting for the effect of derivative financial instruments detailed in note 17, approximately 95 per cent (2020: 95 per cent) of £1,933,818,000 (2020: £1,970,350,000) debt was at fixed rates of interest.

32.5.3 Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase in interest expense of £500,000 (2020: £450,000 decrease) and an increase interest received on cash amounts of £822,000 (2020: £1,132,000). The interest rate sensitivity analysis has been prepared using the present value of cash flows using different interest rates. The sensitivity analysis is applied to the borrowing/deposit rate and performed on the monthly balance of the relevant financial instrument and represents a reasonable approximation of possible change.

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

See note 17.3 for further details of the Group replacement of LIBOR as the reference rate in its financial instruments.

32.5.4 Approach to hedging

Consistent with prior years, the Group uses interest rate swaps and foreign exchange contracts to manage its interest rate and foreign currency risk.

The Group uses 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.

The Group borrows funds that carry a floating rate of interest. In addition, the Group seeks to fix the interest rate payable on future borrowings required to fund committed future and actual capital expenditure and hence hedging variability in cashflows inherent in highly probable forecast funding costs. Interest rate swaps are used/will be used to manage interest rates exposure by swapping variable for fixed payments of interest on a notional amount of funding consistent with the principal, maturities and reference interest rates included in the related funding.

Where required, interest rate swaps and forward foreign exchange contracts are designated as part of hedging relationships upon their inception. The Group 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 Group 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:

32. Risk management (continued)

32.5.4 Approach to hedging (continued)

- 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.

33. Operating lease arrangements

The Group as lessor:

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

	Group	
	2021 **£'000**	**2020** **£'000**
Within one year	**297,089**	348,186
1-2 years	**191,480**	218,284
2-3 years	**175,108**	127,234
3-4 years	**109,065**	111,859
4-5 years	**94,322**	27,197
Over 5 years	**82,312**	24,303
	949,376	857,063
Aggregate operating lease rentals receivable in the year	**359,741**	390,196

The Group as lessee:

The Group subleased certain right-of-use assets in relation to land and has recognised income of £145,000 during the year (2020: £145,000), which is included in the rentals receivables shown above.

34. Related-party transactions

34.1 Identity of related parties

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.

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

34. Related-party transactions (continued)

34.1 Identity of related parties (continued)

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

34.2 Transactions with related parties

The loan with Eversholt UK Rails Limited is more fully described in note 23. Interest on this loan is disclosed in note 7.

The Group charged a management fee of £115,000 (2020: £nil) to UK Rails S.A R.L..

The Group was charged a consultancy service fee of £120,000 (2020: £120,000) by Eversholt UK Rails Limited and received a management fee of £62,000 (2020: £nil) from Eversholt UK Rails Limited during the year.

The amount of £8,000 owed by Eversholt UK Rails Limited relating to the consideration due to the Group for tax losses surrendered was fully repaid in 2021.

34.3 Remuneration of key management personnel

	Company	
	2021	**2020**
	£'000	**£'000**
Short-term employment benefits	**2,018**	1,862
Other long-term employment benefits	**121**	312
	2,139	2,174

Directors' emoluments are disclosed in note 10.

35. Contingent liabilities

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

36. Subsequent events

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

Company statement of financial position

as at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Investments in subsidiaries	*6*	**763,997**	763,997
Amounts owed by group undertakings	*7*	**340,711**	340,715
		1,104,708	1,104,712
Current assets			
Current tax		**28**	2
Amounts owed by group undertakings	*7*	**-**	8
Trade and other receivables	*9*	**-**	110
Cash and cash equivalents	*10*	**2,600**	2,600
		2,628	2,720
Total assets		**1,107,336**	1,107,432
Liabilities and equity			
Current liabilities			
Trade and other payables	*11*	**47**	24
Non-current liabilities			
Amounts owed to group undertakings	*7*	**340,562**	340,562
Total liabilities		**340,609**	340,586
Equity			
Share capital	*12*	**-**	-
Retained earnings		**766,727**	766,846
Total equity		**766,727**	766,846
Total equity and liabilities		**1,107,336**	1,107,432

The Company has not presented its own income statement as permitted by Section 408 of the Companies Act 2006. The Company made a profit after tax of £41,681,000 (2020 £46,499,000) attributable to equity shareholders during the year. Total comprehensive income for 2020 and 2021 comprised solely the profit for the year.

The notes on pages 81 to 86 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 Wesson
Director

Company registration number: 10783654

Company statement of cash flows
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flow from operating activities			
Profit before tax		**41,653**	46,497
Adjustments for:			
- Dividend income	*4*	**(41,800)**	(46,500)
- Finance income		**(47,892)**	(48,023)
- Finance expense		**47,891**	48,023
Operating cash flow before changes in working capital		**(148)**	(3)
Decrease/(increase) in trade receivables		**110**	(110)
Increase in trade payables		**23**	1
Group relief received		**2**	119
Net cash (utilised in)/generated by operating activities		**(13)**	7
Cash flow from investing activities			
Finance income received		**47,892**	48,023
Movement in intercompany loan with Eversholt UK Rails Limited		**8**	(8)
Movement in intercompany loan with Eversholt Rail Limited		**4**	1
Dividends received	*4*	**41,800**	46,500
Net cash generated by investing activities		**89,704**	94,516
Cash flow from financing activities			
Finance expense paid	*8*	**(47,891)**	(48,023)
Shareholder dividends paid	*4*	**(41,800)**	(46,500)
Net cash utilised in financing activities		**(89,691)**	(94,523)
Net movement in cash and cash equivalents		**-**	-
Cash and cash equivalents at the beginning of the year		**2,600**	2,600
Cash and cash equivalents at the end of the year	*10*	**2,600**	2,600

Company statement of changes in equity
for the year ended 31 December 2021

	Note	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020		-	766,847	766,847
Total comprehensive income		-	46,499	46,499
Dividends paid	*4*	-	(46,500)	(46,500)
Balance at 31 December 2020		-	766,846	766,846
Total comprehensive income		-	**41,681**	**41,681**
Dividends paid	*4*	-	**(41,800)**	**(41,800)**
Balance at 31 December 2021		-	**766,727**	**766,727**

Dividends of £410,000 per share were paid during the year (2020: £456,000).

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

1. General Information

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

2. Basis of Preparation

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

2.1 Compliance with IFRSs

The financial statements of Eversholt UK Rails (Holding) Limited have been prepared on the historical cost basis. These financial statements have been prepared in accordance with IFRSs, 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", 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

These are set out in note 2 to the consolidated financial statements.

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 in the Strategic report of the Group accounts 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 in the preparation of these financial statements are set out in note 3 to the consolidated financial statements. There are no accounting policies or significant judgements that are deemed critical to the Company's results and financial position.

The Company holds the following additional financial instruments, within the scope of the policies described in this note:

"Amounts owed by group companies" – these are measured on the same basis as "trade and other receivables". Any impairment is determined in accordance with that described for "trade and other receivables".

"Amounts owed to group companies" – these are measured on the same basis as "non- derivative financial liabilities".

4. Company result

The Company has not presented its own income statement as permitted by Section 408 of the Companies Act 2006. The Company made a profit after tax of £41,681,000 (2020: £46,499,000 profit) attributable to equity shareholders during the year. The Company paid a dividend of £41,800,000 (2020: £46,500,000), equivalent to £410,000 per share (2020: £456,000).

5. Directors' emoluments

Non-executive directors	**2021 £'000**	**2020 £'000**
Directors' fees	**(12)**	(12)

6. Investments in subsidiaries

	2021 £'000	**2020 £'000**
Investment in Eversholt Investment Limited at cost	**763,997**	763,997

Details of the Company's direct and indirect investments are set out in note 19 of the consolidated financial statements.

7. Amounts owed by/to group undertakings

	2021 £'000	**2020 £'000**
Current assets		
Eversholt UK Rails Limited	**-**	8
	-	8
Non-Current assets		
Eversholt Rail Limited	**149**	153
Eversholt Investment Limited	**340,562**	340,562
	340,711	340,715
Non-Current liabilities		
Eversholt UK Rails Limited	**340,562**	340,562

The Company and Eversholt Investment Limited ("EIL") are members of the Security Group, as described in note 2. All members of the Security Group are jointly and severally liable for the obligations of each other member of the Security Group under the Financing Documents.

Whilst the intercompany loan between the Company and EIL is repayable on demand, it is presented as a non-current asset for the reasons set out in note 13. As in prior years however, the Company's use of amounts recovered would be considered in light of any potential impacts on the Company's ability to meet the requirements of the Financing Documents.

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

7. Amounts owed by/to group undertakings (continued)

The intercompany loan owed by 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 less a margin.

The activities of the Security Group are, in part, funded through a subordinated loan agreement between Eversholt UK Rails Limited (as lender) and the Company (as borrower). This loan is unsecured and carries a fixed rate of interest.

8. Reconciliation of liabilities arising from financing activities

31 December 2021	**As at 31 December 2020 £'000**	**Non-cash finance expense £'000**	**Cash flows payments £'000**	**As at 31 December 2021 £'000**
Financing activities attributable to:				
Liabilities				
Loan from Eversholt UK Rails Limited	**340,562**	**47,891**	**(47,891)**	**340,562**

31 December 2020	**As at 31 December 2019 £'000**	**Non-cash finance expense £'000**	**Cash flows payments £'000**	**As at 31 December 2020 £'000**
Financing activities attributable to:				
Liabilities				
Loan from Eversholt UK Rails Limited	340,562	48,023	(48,023)	340,562

9. Trade and other receivables

	2021 £'000	**2020 £'000**
Other receivables	**-**	110

10. Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2021 £'000	**2020 £'000**
Bank accounts	**2,600**	2,600

Cash and cash equivalents comprise a deposit of £2,600,000 (2020: £2,600,000) which is restricted as it provides security for the Profit Participating Shares issued by a subsidiary.

11. Trade and other payables

	2021 £'000	**2020 £'000**
Accruals	**47**	24

12. Share capital

	2021 £	**2020 £**
Authorised, called up and fully paid		
102 Ordinary shares of £1 each	**102**	102

12. Share capital (continued)

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

13. Risk management

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

Sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 3.

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.

Investments in subsidiaries

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

Capital risk management

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

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

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

Credit risk management

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

The Company monitors the exposure to Eversholt Investment Limited, Eversholt Rail Limited, Eversholt UK Rails Limited and the banks holding the Company’s cash and cash equivalents balances on a regular basis. This includes considering the borrower’s ability to service its obligations to the Company and other creditors, having regards to past, current and future circumstances.

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

- Historical credit experience of the counterparty;
- 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 Group’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 Group 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.

13. Risk management (continued)

Credit risk management (continued)

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

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

Market risk management

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

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

Interest rate sensitivity analysis

A 5 basis points increase in LIBOR would have resulted in an increase in intercompany interest income of £70 (2020: £127). The sensitivity analysis is applied to the borrowing rate and performed on the monthly balance of the relevant financial instrument and represents a reasonable approximation of possible change.

Liquidity risk management

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

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

Undiscounted cash flows related to the financial assets and financial liabilities are analysed below by their contractual due date, including estimated interest cash flows where appropriate:

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2021						
Financial assets						
Amortised cost						
Amounts owed by Eversholt Investment Limited	**340,562**	**340,562**	**340,562**	**-**	**-**	**-**
Amounts owed by Eversholt Rail Limited	**149**	**149**	**-**	**-**	**149**	**-**
Cash and cash equivalents	**2,600**	**2,600**	**-**	**-**	**-**	**2,600**
	343,311	**343,311**	**340,562**	**-**	**149**	**2,600**
Financial liabilities						
Amortised cost						
Trade and other payables	**47**	**47**	**-**	**47**	**-**	**-**
Loan from Eversholt UK Rails Limited	**340,562**	**340,562**	**-**	**-**	**-**	**340,562**
	340,609	**340,609**	**-**	**47**	**-**	**340,562**
Total financial instruments	**2,702**	**2,702**	**340,562**	**(47)**	**149**	**(337,962)**

13. Risk management (continued)

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						
Amounts owed by Eversholt Investment Limited	340,562	340,562	340,562	-	-	-
Amounts owed by Eversholt UK Rails Limited	8	8	-	8	-	-
Amounts owed by Eversholt Rail Limited	153	153	-	-	153	-
Trade and other receivables	110	110	-	110	-	-
Cash and cash equivalents	2,600	2,600	-	-	-	2,600
	343,433	343,433	340,562	118	153	2,600
Financial liabilities						
Amortised cost						
Trade and other payables	24	24	-	24	-	-
Loan from Eversholt UK Rails Limited	340,562	340,562	-	-	-	340,562
	340,586	340,586	-	24	-	340,562
Total financial instruments	2,847	2,847	340,562	94	153	(337,962)

In the Statement of financial position as at 31 December 2021, the Company has presented the "Amounts owed by Eversholt Investment Limited" (£340,562,000) as a non-current asset. Whilst the loan is repayable on demand, the Company does not expect to request repayment of this amount within one year.

14. Fair value of financial assets and liabilities

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2020 and 31 December 2021. Financial assets and liabilities for which valuation categorisation is required, fall within level 2.

15. Contingent liabilities

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

16. Subsequent events

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