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

Annual report and financial statements
for the year ended 31 December 2022

Registered No: 10783654

Annual report and financial statements

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for the year ended 31 December 2022

CEO Foreword

2022 was an economically challenging year globally. Whilst passenger volumes have yet to reach the pre-COVID-19 level, we remain confident in rail's potential to meet the demands for low carbon emission transportation.

Over the past year, we have more clearly communicated how Environmental, Social and Governance ("ESG") principles underpin our business processes. We have strengthened our ESG approach to measuring and monitoring carbon emission across our value chain. We are also developing a roadmap towards setting science-based carbon emissions reduction targets for both our business and value chain. These will continue to inform how we manage our ESG and climate-related risks, as well as continuing to create wider value for all stakeholders across our industry. We also published our first stand-alone Sustainability Report for 2021.

ESG themes underpin our investment strategy, and we continue to explore innovations for our assets that can support the UK's decarbonisation agenda. We have continued to develop low-carbon rolling stock solutions. The group is currently investigating retrofittable propulsion technologies, including hydrogen fuel cells. We are also continuing to develop, alongside Transport Design International, the Revolution Very Light Rail ("RVLR"). Both initiatives offer the opportunity to enable modal shift and support greater connectivity in rural areas.

Whilst our wider portfolio already has strong green credentials, we are progressing projects, in line with our ongoing commitment to support the transport industry in its decarbonisation journey. 71% of our fleet is powered by electricity, and a further 8% of our portfolio is bi-mode running on electricity where infrastructure exists. Just 21% of our portfolio is diesel power only, and most of the diesel only vehicles have modern engines which reduce the amount of nitrogen oxides and particulate emissions compared with earlier generation engines. Whilst the number of vehicles has reduced from 3,341 as at 31 December 2021 to 2,982 as at 31 December 2022, the composition of our fleet is broadly consistent with prior year. Changes reflect fleet retirements in the year as well as the demands of customers required to operate on non-electrified routes. Please see 3.3 Climate change and the regulatory environment for more details.

We remain committed to providing a great workplace for our employees. We undertake an engagement survey which monitors employee satisfaction levels and regularly engage employees in workshops on various initiatives to understand their views. We have continued to invest in the development of our staff, offering training, as well as increasing our focus on staff wellbeing. We also remained committed to actively contributing to wider society and the 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 opportunity 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 2022, 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, sustainable growth in the future.

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 United Kingdom. The Group owns a diverse range of passenger rolling stock including regional, commuter and high-speed passenger trains as well as freight locomotives. The 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 ("TfW") or Transport for London ("TfL") (or other relevant rail services sponsors) whilst FOCs and other TOCs operate on an open access basis. 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. The Group continues 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 focus on growth through investing in UK rolling stock and associated rail assets. 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 be the UK's rolling stock leasing company of choice and continue to be an expert and responsible provider of train finance and asset management". 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 2022, including, where relevant, details of key performance measures against these 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 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.

3. Business environment (continued)

3.1 UK rail industry (continued)

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 based on 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 due course, if not already, these will be superseded by National Rail Contracts ("NRCs").

In 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, Great British Railways ("GBR"), will be created through the amalgamation of Network Rail, some elements of the DfT and elements of other cross industry organisations such as the Rail Delivery Group. 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 previous franchising model is that, in most cases, revenue risk will be borne by GBR and not the private sector operators.

The White Paper identified the introduction of Passenger Service Contracts ("PSCs"), which will replace franchises. The new system of PSCs will build on the concession model used by 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 change from franchising, where each private operator designed its own timetable, set most 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.

Whilst precise plans have not yet been set out, The Williams-Shapps Plan for Rail recognised the importance of the private sector and 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.

Plans to formally create GBR have been delayed due to a lack of available parliamentary time. On 18 October 2022, the Transport Secretary at that time, Anne-Marie Trevelyan, confirmed that legislation to create GBR would not be brought before Parliament until May 2023 at the earliest and, as a result, GBR was unlikely to be fully in place by early 2024 as originally intended. Ms Trevelyan said work was being done on which changes could be achieved without legislation. On 7 February 2023, Mark Harper, the current Transport Secretary, in his George Bradshaw address 2023 (https://www.gov.uk/government/speeches/george-bradshaw-address-2023) reaffirmed the government's commitment to GBR and stated that by the summer the government would respond to the consultation on GBR's legislative powers. In addition, following ministerial direction, the GBR Transition Team will develop the guiding long-term strategy for rail, which the government will publish later in 2023.

The DfT has continued to agree and/or extend a series of NRCs with TOCs as previous agreements conclude, the majority of which have now been agreed. NRCs will facilitate the transition to the new industry Passenger Service Contracts, which are still being developed.

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 shorten a longer initial term.

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

Strategic report (continued)

for the year ended 31 December 2022

3. Business environment (continued)

3.1 UK rail industry (continued)

- SE Trains Limited, which provides commuter and regional services throughout Kent and East Sussex.

The Scottish Government's wholly-owned OLR company, ScotRail Trains Limited, runs the operations of ScotRail.

In 2021 TfW OLR took over operation of the Wales and Borders rail services, renationalising the railway in 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 any impact for the Group, anticipate and respond to changes in the most appropriate way.

The Group is also cognisant of the ongoing Industrial action by rail union members which has resulted in reduced rail services during the second half of 2022 and early 2023. Operating lease income is fixed over the period of the lease and is not dependant on rail usage.

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. The risk to the Group of disruption or increased cost to the supply chain as a result of the UK's withdrawal from the EU 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 2020, Green House Gas ("GHG") emissions from rail (passenger and freight) made up just 1.5% of the UK's domestic transport emissions, while transport emissions accounted for 24% of the UK's total emissions[1]. The railway industry continues to seek decarbonisation through increased electrification, innovative low-carbon solutions to modify existing self-powered assets and new greener trains.

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.

In addition to the activities described in section 4.4, the Group is an active member of industry forums that consider 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 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

During the year, the Group has maintained its efforts to develop and maintain strong relationships with its business counterparties and stakeholders.

The Group meets regularly with suppliers to discuss current and forecast activity and to resolve any issues.

[1] ORR (2020) Rail Emissions 2021-22. Available at: Rail Emissions April 2021 to March 2022 (orr.gov.uk)

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 undertook a customer satisfaction exercise towards the end of 2021, to better understand how it could improve and highlight good practice so that this could be embedded throughout the business. The Group has in place a compliance policy which covers both general and Code of Practice complaints. In 2022, 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

	2022	2021
Number of vehicles owned by the Group	**2,982**	3,341
Group rolling stock utilisation (percentage of vehicles available for lease which were let)	**96.5%**	97.4%

Leasing developments

- On 1 April 2022, ScotRail Trains Limited took over the operation of train services in Scotland from Abellio ScotRail. The Group is the largest lessor of passenger rail vehicles in Scotland. New leases have been agreed for all our fleets in Scotland, namely Classes 318 (63 vehicles), 320 (66 vehicles), 320/4 (36 vehicles), 334 (120 vehicles) and 380 (130 vehicles).
- NRCs awarded in 2022 include:
  - On 25 March 2022, Go-Ahead Group announced that the DfT had awarded an NRC to Govia Thameslink Railway ("GTR") to continue operating the Thameslink, Southern and Great Northern rail services. The new contract commenced on 1 April 2022 and will run until at least 31 March 2025, with up to a further three years at the Secretary of State's discretion. A short-term lease was agreed with GTR for use of our Class 455 fleet (184 vehicles), prior to retirement of the fleet in August 2022;
  - On 14 June 2022, First Group announced that the DfT had awarded an NRC to First Greater Western Limited to continue operating the Great Western network. The new contract has a core three-year term to 21 June 2025 with an option for the DfT to extend by up to three further years to June 2028. A lease was agreed for Class 802 (236 vehicles) with First Greater Western Limited until 25 June 2028, subject to a lessee break option to terminate the lease (or novate it to a DfT nominee) any time after 22 June 2025 if the Secretary of State has terminated the NRC;
  - On 4 October 2022, Abellio East Midlands signed an eight-year NRC, commencing 16 October 2022 with a four-year core period running to 18 October 2026, and potentially running as far as on 13 October 2030 at the DfT's discretion. We have agreed with Abellio East Midlands to extend the lease for our C222 fleet with units now due to be returned on a staggered basis between April 2024 and July 2025; and
  - On 7 October 2022, DfT announced a short contract extension with Avanti for West Coast services to 1 April 2023. This short extension window is designed to provide Avanti with the opportunity to improve their services. The Government will then consider Avanti's performance while finalising a NRC that will have a renewed focus on resilience of train services and continuity for passengers. The Group does not presently lease any trains to Avanti.
- Other re-leasing activity during the year included:
  - Extensions for Class 321/9 (12 vehicles), Class 322 (20 vehicles) and C321 Renatus (120 vehicles) fleets with Abellio East Anglia for varying durations during the year;

Strategic report (continued)
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4. Development and performance of the business (continued)

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

- Extensions of the lease by GB Rail Freight ("GBRf") of our First-in-Class ("FiC") Class 321 Swift Express Freight unit, for trial purposes. This has since been followed by a short-term lease of the FiC to Varamis Rail, also for trials of parcel freight;
- The extension of one of our leases with Freightliner, for 12 C66 locomotives;
- A short-term lease extension with TfL Rail for Class 315 (originally 32 vehicles); and
- The extension of our Class 222 (143 vehicles) lease with East Midlands Railway, pending delivery of their new build fleet due to commence service in 2024.

Lease terminations:

- In August 2022, the Class 455 lease ended, following the staggered retirement of 184 Class 455 vehicles;
- on 30 June 2022, a lease for two Class 91 locos by Rail Operations Group ended;
- the lease for 12 Class 171 vehicles by GTR ended on 31 March 2022, with all vehicles moving immediately on lease with East Midlands Railway ("EMR"). Nine vehicles have moved to EMR during the course of the year – three vehicles (one unit) remain with GTR under a sub-lease between the parties;
- During the year at varying dates, leases for fleets of Class 321/9 (12 vehicles) and Class 322 (20 vehicles) ended; and
- During the course of November and December 2022, 36 Class 321 Renatus vehicles were stood down by Abellio Greater Anglia, out of service pending their redelivery to us, which commenced late in December.

Asset disposals

During the year, part of the Group's Mark 4, Class 315, Class 321, Class 321/9, Class 322 and Class 455 fleets were decommissioned or sold. These vehicles had achieved between 30 and 40 years of service. The disposal of these vehicles generated proceeds of £3,889,000 (2021: £18,578,000) and resulted in a profit on disposal of £2,666,000 (2021: £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 procedures to manage the reprocessing of end-of-life vehicles in a safe and environmentally sustainable way.

During the year, the Company has written down certain vehicles by £33,666,000 (2021: £21,685,000 to recoverable value. The write-down has been identified during management assessment of the commercial value of the fleets.

A small number of vehicles/components were donated for preservation or training, including three C365 vehicles to the East Kent Railway, three Mk4 vehicles to the Fire Service College for use as training aids, and a whole C315 unit for preservation.

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 2022 the Group managed contracts delivering heavy maintenance projects on seven of its fleets, including mileage-based overhauls on five fleets: Class 91; Mk4; Class 320; Class 320/4; and Class 334. We have also undertaken two time-based overhaul projects on Class 318 and Class 465. We have agreed an interim mileage-based overhaul for the Class 334 fleet which will start in early 2024.

The Group spent £29,278,000 during 2022 on maintenance related activity (2021: £53,775,000), the decrease compared to 2021 reflects the timing of heavy maintenance events.

4. Development and performance of the business (continued)

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

Asset management services

The Group continues to support Cross London Trains (“XLT”), which are leased to Govia Thameslink Railway, with asset management services on the Class 700 fleet.

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 2022 including modifications agreed as part of leases for Class 375, Class 395, Class 222 as well as completing 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 4 fleet for integration with their Class 67 locomotives. Expenditure on modification and refurbishment projects totalled £2,970,000 in 2022 (2021: £5,132,000).

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 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: improving air quality and noise emissions of our diesel fleets and 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 characteristics, 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 engaged in the design and engineering of an electric-diesel-battery (tri-mode) train. This work will continue through 2023 and will inform the opportunity for a future trial on one of the Group’s Class 802 operated by Great Western Railway. The trial would 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 in station air quality and dramatically reduce noise levels, creating a more pleasant environment for passengers and people living nearby.

The Group is working both with OEMs and other rail industry specialists to investigate the introduction of battery technology to extend the range of certain electric fleets. In addition to battery technology, the Group has invested in the repurposing of 5 of its legacy Class 321 units from passenger operation to express freight operation, to help the progression of modal shift from road to rail freight. The Group developed a First in Class unit which is now on lease supporting trials.

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.

	2022	**2021**
Expenditure on new build rolling stock	**£8,938,000**	£17,400,000

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

4. Development and performance of the business (continued)

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

The volume of new build orders across the UK rail sector is expected to remain subdued in the short-term due to the transition to GBR and focus within the industry on cost. However, in the medium and longer term, the drive to decarbonise the railway and replace life expired assets is expected to be a substantial influence on future new build procurement. In late 2022, Chiltern Railways initiated a procurement programme for new Battery Multiple Units (BMUs) and Southeastern commenced a programme to replace its Metro fleet. Earlier this year, TPE issued an invitation to tender for new trains to support the implementation of the Trans Pennine Route Upgrade.

The Group, in partnership with Transport Design International, is continuing to develop the RVLR vehicle. RVLR has been designed primarily to improve railway connectivity where installing and operating traditional heavy rail solutions is uneconomic e.g. branch lines and line extensions. The UK market sector that represents the most immediate opportunities for RVLR is that associated with rural line re-openings being proposed via the DfT's Restoring Your Railway ("RYR") initiative and other similar schemes. RVLR's commercial positioning in terms of acquisition/leasing and operating costs means that the business case for certain branch line re-openings previously based on the traditional assumption of using heavy rail vehicles can be significantly improved. This should make more rural commuter routes commercially viable, thereby facilitating wider rail connectivity, and modal shift, across the UK.

RVLR has been successfully demonstrated to a wide range of stakeholders at a private test site in Ironbridge, Shropshire. The next step is to build a further three pre-series vehicles to enable the Group to test RVLR's commercial viability through trial operations by TOCs. During 2022, RVLR has won a number of industry awards including the Global Light Rail Technical Innovation Award (Rolling Stock) and the Insider's Made in Midlands Automotive, Aerospace and Rail Award.

4.3 Owning and acquiring UK rail related non-rolling stock assets

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. The Group's Bedford depot is leased to Govia Thameslink Railway and Northam depot is leased to South Western Railway.

4.4 Innovating to support the transport decarbonisation journey

Environmental considerations are an integral factor in the Group's key business decisions and through regular engagement with industry stakeholders, the Group looks for ways to support their carbon accounting and emissions reductions objectives. The Group uses analysis based on different climate-related scenarios to inform its business strategy in relation to procuring rolling stock and developing asset management plans for its existing rolling stock. To date, this approach has been based on anticipated TDNS implementation pathways. With TDNS now incorporated into the Whole Industry Strategic Plan, we will update our approach as and when plans are announced. 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.

The Group is currently investigating three retrofittable propulsion technologies to achieve low or zero-emissions train operation: hydrogen fuel cells, batteries, and diesel-battery hybrid power packs. All these technologies enable zero-emissions operations in stations and in built-up areas. Programmes are also being progressed to convert surplus passenger trains to carry parcels to encourage modal shift from heavy goods vehicle to rail to reduce carbon emissions. Further detail of these projects can be found in section 4.1.

During the year the Group commissioned a detailed feasibility study aimed at developing battery power and range extension to the Class 321 Renatus fleet, capable of providing between 20 to 30 miles of self-propulsion,

On 25 July 2022 the Group signed an agreement with Southeastern and Hitachi Rail to upgrade our Class 395 fleet. The scope of works includes significant upgrades to the interior to provide a better passenger experience as well as installing some of the latest digital solutions to future-proof the fleet.

On 5 October 2022, the Group reached agreement with Varamis Rail to lease a Class 321 Swift Express Freight train to deliver light goods at high speed across the UK. Varamis will be running services five nights a week from Birmingham to Scotland for a major parcel carrier.

4. Development and performance of the business (continued)

4.4 Innovating to support the transport decarbonisation journey (continued)

The Group's direct operations are mostly limited to office-based activities. In 2021, the Group moved offices to a shared coworking space, with better sustainability and energy efficiency.

This year, the Group expanded the scope of its voluntary carbon emissions reporting to emissions from its rolling stock assets as well as its wider value chain as our ESG journey continues to evolve. While it does not have operational control over them, this is to better align with best practice outlined in carbon emissions reporting standards, as outlined in more detail in Section 7: Our approach to managing ESG. We also monitor the performance of our rolling stock, this includes reviewing feedback from TOCs and FOCs and emission data. In addition, the Group discloses its emissions from usage of purchased electricity as part of Streamlined Energy and Carbon Reporting (SECR) Framework for UK businesses. For further details, please refer to the SECR disclosures in the Directors' report.

	2022**	2021
Expenditure invested in alternative propulsion technology*	**£1,265,000**	£1,928,000
Total gross greenhouse gas emissions, as reported under the SECR disclosures	**15.54tCO_2e**	60.75tCO_2e

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

**movement year on year in expenditure reflects the nature of the investment cycle, whilst reduction in emissions reflects the reduction in premises used.

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 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 2022 Golden Spanners industry awards which celebrate excellence in train maintenance. The Group won a total of three bronze, three silver and two gold awards, across the full age range of fleets, including former British Rail electric multiple units, first and second generation intercity and first 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 place to work

The Group employs 103 (2021: 102) professional, technical and support staff, and is committed to their continued professional development and wellbeing. This is demonstrated by our latest employee engagement survey where our culture and people were two of our biggest strengths and 100% of participants confirmed that they consider Eversholt Rail to be a good place to work.

Throughout the pandemic, our staff conducted their usual working practices remotely, with no staff furloughed or made redundant. We continue to prioritise maintaining an engaged culture, while allowing employees a degree of flexibility that makes sense for both the business and their lives. In October 2021, we implemented a hybrid working trial which coincided with moving to new offices. The hybrid working trial concluded successfully in November 2022, this has been adopted and will be reviewed periodically.

4. Development and performance of the business (continued)

4.6 Providing a great place to work (continued)

To ensure we continue to provide a great workplace for our employees, we undertake an engagement survey 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. In addition, we 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 38.7% of our workforce are women compared to the most recently published industry average of 16%[2]. 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. In the second half of 2022, cross functional bootcamps were held which provided an opportunity for new joiners since the pandemic to gain a greater insight into the business.

Each employee received an average of 13.9 hours of training in 2022, equivalent to a spend of approximately £1,668. The continuation of on-line learning and a return to classroom-based courses led to an increase in training hours and 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 2022 was 27%.

Alongside professional training, we also offer training and measures to foster employees' health and well-being and provide support during challenging times. We have conducted employee feedback workshops to gain an understanding of what employees do and do not value in relation to wellness. The outcome will allow us to shape a wellness strategy and programme for 2023. In addition, we co-sponsored Rail Wellbeing Live to promote wellbeing across the industry.

The Group monitors staff turnover rates, calculated as the percentage of employees who left the organisation by resignation or retirement during the year.

	2022	2021
Training hours per employee	**13.9**	4.75
Training spend per employee	**£1,668**	£825
Employee turnover rates	**6.6%**	8.4%

4.7 Delivering results with integrity

The Group has a strong focus on conducting business responsibly and ethically. Our Code of Practice explains our business philosophy, our key business objectives and our service commitment to train operating companies.

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 processes and suppliers. The scope of these activities is determined by level of risk, which is continuously monitored. The Group regularly conducts Bribery Act Risk Assessments, the latest of which found that appropriate processes and practices are in place to prevent bribery. We continue to review bribery, corruption and modern slavery training needs each year and update in line with evolving best practice. All employees are then required to complete annual training.

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.

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

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 reported to 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 regularly considered by 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 on passenger volume. This exposure has largely been mitigated in the short term by the terms of operating leases for the Group's rolling stock. The Directors do not believe that COVID-19 presents a material risk to the Group.

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 forecasts, including inflation and the demand for rolling stock. As a result of the Group's contracting structure, there has been no significant impact from economic (including inflationary) pressures to date**.**

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 Williams-Shapps Plan for Rail recognised the importance of the private sector although the impacts of these new arrangements on our business are not yet clear and they could lead to changes in the term of future leases and the way in which new fleet procurements are managed.

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 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.

5. Risk management (continued)

5.1 Principal risks and uncertainties (continued)

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

The safe operation of the fleets remain a key priority and fleet performance is constantly monitored for emerging trends that might indicate that a particular fleet has developed a problem.

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.

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. The impact of inflationary pressures on funding rates is also being monitored. However, impacts, if any, are limited given the current funding profile and liquidity of the Group.

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 of the commercial value of all fleets is carried out by management at least annually, 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. The 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.

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.

5. Risk management (continued)

5.2 Recoverable value of rolling stock (continued)

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 leasing 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 £320,599,000 (2021: £359,741,000) and a profit after tax of £52,803,000 (2021: £54,557,000). The decrease in operating lease rentals is primarily due to fleet retirements. The decrease in profit after tax in 2022 is primarily due to the reduction in operating lease rentals as well as reduced maintenance income partially offset by gains on derivative financial instruments. As at 31 December 2022 the Group had net liabilities of £390,005,000 (2021: £422,219,000). The decrease in net liabilities at 31 December 2022 reflects largely the profit for the year and hedging reserve gain. The Group employs a monthly average number of 103 staff (2021: 102).

The Group's results for the year are detailed in the Income statement on page 27.

The Group is financed by a mix of borrowings 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. As at 31 December 2022, Moody's Investors Services rating for the Group and its debt issued under the Group's MTN programme was Baa2 (31 December 2021: Baa2). At the same date the Fitch Ratings grading for the Group was BBB (31 December 2021: BBB) and the bonds issued under its MTN programme were rated BBB+ (31 December 2021: 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. 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 supports our investment strategy as we explore innovations for our assets that can support the UK's decarbonisation agenda. We do this responsibly, while providing a great workplace for our people and delivering results effectively and ethically.

In 2022, the Group further strengthened its ESG Governance, as well as its approach to formalising its climate strategy in line with best practice, and expanded the scope of its carbon emissions and wider environmental reporting across its value chain. The Group's sustainability team also engaged with various passenger and freight customers throughout 2022, to better understand their ESG priorities and explore opportunities to align carbon accounting across the industry.

7. Our approach to managing ESG (continued)

As part of its ongoing review of material ESG topics that are relevant to the business and its stakeholders, a 'double materiality' assessment was conducted to ensure the Group's sustainability agenda continues to address the right ESG topics, effectively. Findings of this assessment can be found in our 2021 Sustainability Report.

We are continuing to work on developing a roadmap towards setting a science-based carbon emissions reduction target for our business and value chain. In addition, the Group has expanded its carbon emissions to its value chain as its ESG journey and voluntary reporting continues to evolve, and now reports against all relevant 15 categories of the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard, as per the table below.

Emissions category	2022 (tonnes of Co_2e)
Scope 1	-
Scope 2 (location-based)	6.6
Scope 3	265,313
of which, account for traction emissions[3]	247,846

Given the Group's operational environmental impact is limited to its office-based activities, expanding the carbon emissions accounting to our entire value chain has been a notable milestone in our ESG journey in 2022. Traction emissions were calculated by a hybrid method of applying modelled emission factors for certain fleets, and mileage data for others, based on data availability. As our Scope 3 emissions methodology evolves, the Group aims to further collaborate with suppliers and customers to report actual (rather than modelled) emissions data in the future. Still, we consider our traction emissions to be reflective of the Group's fleet size and its green credentials, with 71% of our fleet powered by electricity, and a further 8% of our portfolio bi-mode running on electricity where infrastructure exists.

More information on our carbon emissions reporting methodology and wider environmental reporting can be found in our website and stand-alone 2021 Sustainability Summary Report.

Beyond these, the Group has already engaged in a number of new battery initiatives as described in section 4.1. For further details on the latest Group' developments, please refer to our website[4].

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.

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[3] This is the first year the Group is reporting traction emissions against Category 13 Leasing of Downstream Assets of the GHG Protocol. For year-on-year comparative emissions data reported under SECR Framework, please refer to Streamlined energy and carbon reporting in the Director's report.
[4] https://eversholtrail.co.uk/news/

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 is 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 2022.

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 TOCS and FOCS 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 2022, the Board has made decisions in relation to dividends payable to shareholders, capital amounts to be retained in the Group for investment purposes and decisions as to whether to proceed with certain investments or not.

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:

- TOCS and FOCS – 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.

Strategic report (continued)
for the year ended 31 December 2022

Section 172(1) statement (continued)

Details of these groups, and the main methods that the Directors have used to engage with those stakeholders during the course of the year, are set out in the corporate governance statement within the Annual report and financial statements of Eversholt UK Rails Limited for the year ended 31 December 2022.

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 2023

Directors' report
for the year ended 31 December 2022

The Directors present their Annual report together with the audited financial statements for the year ended 31 December 2022.

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 2022:

In preparing the information in the table below, the Group has disclosed emissions data in line with the scope required by SECR. Further information around the Group's voluntary disclosures around wider value chain emissions, such as from rolling stock / depot assets operated by its customers, can be found on in Section 7 of the Strategic report: Our approach to managing ESG GHG Emissions & Energy Use Data for the year ended 31 December 2022, together with comparative:

Year ended 31 December	**2022**	2021
Gas combustion (kWh)	**-**	-
Fuel consumption for transport purposes (kWh)	**35,543**	40,410
Electricity usage (kWh)*	**34,149**	239,309
Emissions from combustion of gas, tCO_2e (Scope 1)	**-**	-
Emissions from combustion of fuel for transport purposes, tCO_2e (Scope 2)	**-**	-
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel, tCO_2e (Scope 3)	**8.94**	9.94
Emissions from purchased electricity, tCO_2e (Scope 2, location-based)*	**6.60**	50.81
Total gross CO_2e based on above, tCO_2e	**15.54**	60.75
Intensity ratio: tCO_2e/employee (103 employees in 2022 and 102 in 2021)	**0.15**	0.60
Methodology	**All tCO_2e emissions have been calculated using 2022 UK Government GHG conversion factors for Company Reporting**	All tCO_2e 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 reflected energy consumption from the Group's new and previous offices which were still leased until June 2022. Electricity consumption associated with the new office is considerably lower than consumption at the previous office and explains the reduction in energy usage and associated emissions in 2022.

Directors' report (continued)
for the year ended 31 December 2022

Streamlined energy and carbon reporting (continued)

(a) Energy efficiency action taken:

In the period covered by the report, energy efficiency actions continued 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 continues to encourage our workforce to adopt greener modes of transport.

(b) Reporting methodology for 2022:

- GHG emissions have been calculated in accordance with HM Government's 'Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance', March 2019 update.
- In order to calculate emissions '2022 UK 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 landlord in kWh's per desk per month for each quarter. kWh's have been converted to tCO_2e using the above described GHG conversion factors.
- Grey fleet usage was provided as a breakdown of millage. Mileage figures were converted into tCO_2e using '2022 UK Government GHG Conversion Factors for Company Reporting'. The associated mileage for each vehicle was recorded along with the vehicle type (by market segment) and the associated fuel source, allowing for the application of the relevant conversion factors for each vehicle type. For five vehicles, the fuel source(s) and market segment(s) / engine size(s) were unknown, therefore the conversion factor for an average car size and unknown fuel source was applied in these instances.

The scope of emissions reported in this section are in line with that of SECR requirements. However, there are additional scope emissions (currently outside the scope of SECR) that fall within the Group's value chain and fall within the scope of the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard. This is discussed further in section 7 of the Strategic report.

The comparative information for 2021 was calculated as follows:

- All tCO_2e emissions were calculated using 2021 UK Government GHG conversion factors for Company Reporting.
- Electricity consumption was calculated from landlord invoicing which provided kWh totals.
- 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 do not believe that COVID-19 presents a material risk to the Group.

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.

Political donations

No political donations were made during the financial year (2021: £nil).

Directors' report (continued)
for the year ended 31 December 2022

Risk management and corporate governance

Details of the Group's risk management and corporate governance arrangements are set out in the Corporate Governance statement within the Annual report and financial statements of Eversholt UK Rails Limited.

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 not expected that GBR will be fully in place by early 2024 as originally communicated by the Transport Secretary as described in section 3.1.

During the year and having regard to its ESG responsibilities, the Group continued to review its profile and performance from an ESG perspective. This work supports 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

During the year, the Directors declared and paid dividends of £40,700,000 (2021: £41,800,000).

Going concern basis

The Directors have considered: its forecasts and projections; current financial resources (including cash of £270,818,000 (2021: £225,064,000) and undrawn committed borrowing facilities of £450,000,000 as at 31 December 2022 (2021: £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 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.

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.

Directors' report (continued)
for the year ended 31 December 2022

Annual report on internal control over financial reporting

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

The 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 UK endorsed 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 2022 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
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138-142 Holborn
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EC1N 2ST
United Kingdom

28 February 2023

Statement of Directors’ responsibilities

for the year ended 31 December 2022

The Directors have accepted responsibility for the preparation of these financial statements for the year ended 31 December 2022.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB and endorsed for use in the UK by the UK Endorsement Board, referred to as “'UK-adopted IFRS”. Refer to note 2 for more details. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 2023 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 2022

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- the financial statements 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, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity;
- the related notes 1 to 36;
- the Company statement of financial position, statement of cash flows, statement of changes in equity; and
- the related notes 1 to 16 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 the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

- Assessing the financing facilities available to the Group and the Company. The values, terms and maturities of those facilities were confirmed to lender confirmations and underlying agreements;
- Challenging the assessment 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's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

for the year ended 31 December 2022

Conclusions relating to going concern (continued)

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's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the Group's industry and its control environment, and reviewed the Group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's business sector.

We obtained an understanding of the legal and regulatory frameworks that the group operates 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 2022

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 procedures performed to address them are 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. Non-capitalrental income pertains to amounts recognised in respect of maintenance activities. There is a risk present owing to the fact that management's judgement is required when determining the amount of revenue to be recognised in the reporting period. There is judgement in respect of future maintenance costs and thenature of timing of the work that will be required in the contract period.

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, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

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

for the year ended 31 December 2022

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance 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 of the 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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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 2023

Consolidated income statement
for the year ended 31 December 2022

	Note	Group Year ended 31 December 2022 £'000	 Year ended 31 December 2021 £'000
Revenue			
Operating lease income	*4.1*	**320,599**	359,741
Maintenance income	*4.1*	**52,633**	61,737
Finance lease income	*4.1*	**366**	443
Other income	*4.1*	**2,305**	4,227
Total revenue	*4.1*	**375,903**	426,148
Cost of sales	*5*	**(169,836)**	(195,458)
Gross profit		**206,067**	230,690
Finance income	*6*	**4,379**	179
Finance expense	*7*	**(156,341)**	(147,862)
Net fair value gain on derivative financial instruments	*17*	**37,424**	13,318
Pension finance expense	*31.6*	**(92)**	(115)
Administrative expense	*8*	**(22,595)**	(23,191)
Gain on disposal of property, plant and equipment		**2,666**	5,147
Profit before tax		**71,508**	78,166
Income tax charge	*11*	**(18,705)**	(23,609)
Profit for the year		**52,803**	54,557

There were no discontinued or discontinuing operations during the year.

The notes on pages 32 to 71 form an integral part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2022

	Note	Group Year ended 31 December 2022 £'000	 Year ended 31 December 2021 £'000
Profit for the year		**52,803**	54,557
Other comprehensive income			
Actuarial gain on defined benefit scheme	*31.7*	**8,051**	4,302
Tax charge in respect of actuarial movement on defined benefit scheme	*18*	**(2,014)**	(540)
Effective portion of changes in fair value of cash flow hedges	*17*	**13,189**	3,894
Transfer of loss on cash flow hedges to Income statement	*17*	**5,033**	5,203
Transfer of loss/(gain) on cash flow hedges to property, plant and equipment	*17*	**141**	(1,188)
Tax (charge)/credit on effective portion of changes in fair value of cash flow hedges	*17*	**(4,289)**	3,736
Total other comprehensive income		**20,111**	15,407
Total comprehensive income for the year		**72,914**	69,964

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 2022

		Group	
		As at 31 December 2022	As at 31 December 2021
Assets	*Note*	£'000	£'000
Non-current assets			
Property, plant and equipment	12	**1,971,413**	2,100,430
Right-of-use assets	13	**7,247**	1,460
Finance lease receivables	14	**900**	2,164
Derivative financial instruments	17	**124,710**	17,940
Retirement benefit asset	31.5	**2,679**	-
		2,106,949	2,121,994
Current assets			
Inventory	20	**-**	151
Finance lease receivables	14	**1,265**	1,171
Contract assets	4.2	**6,808**	2,855
Trade and other receivables	15	**15,200**	12,075
Current tax	11	**9,727**	9,727
Cash and cash equivalents	21	**270,818**	225,064
		303,818	251,043
Total assets		**2,410,767**	2,373,037
Liabilities and equity			
Current liabilities			
Trade and other payables	22	**66,510**	67,550
Contract liabilities	4.2	**8,625**	-
Lease liabilities	16	**617**	603
Current tax		**3,024**	6,857
Borrowings	23	**71,468**	71,747
Other liabilities	25	**22,450**	11,290
Provisions	26	**-**	165
		172,694	158,212
Non-current liabilities			
Retirement benefit obligation	31.5	**-**	5,026
Borrowings	23	**2,166,395**	2,217,012
Deferred tax	18	**51,296**	54,599
Contract liabilities	4.2	**929**	10,567
Other liabilities	25	**189,336**	191,273
Derivative financial instruments	17	**212,990**	156,867
Lease liabilities	16	**7,132**	1,700
		2,628,078	2,637,044
Total liabilities		**2,800,772**	2,795,256
Equity			
Share capital	27	**-**	-
Other reserve		**13,672**	13,672
Accumulated deficit		**(347,515)**	(365,655)
Hedging reserve	17	**(56,162)**	(70,236)
Total equity		**(390,005)**	(422,219)
Total equity and liabilities		**2,410,767**	2,373,037

Consolidated statement of financial position (continued)
as at 31 December 2022

The notes on pages 32 to 71 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 2023. 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 2022

	Note	Group Year ended 31 December 2022 £'000	 Year ended 31 December 2021 £'000
Cash flow from operating activities			
Profit before tax		**71,508**	78,166
Adjustments for:			
- Depreciation	*12*	**106,036**	120,089
- Write-down of rolling stock	*5*	**33,666**	21,685
- Depreciation of right-of-use assets	*13*	**739**	429
- Profit on reassessment of lease term	*13*	**-**	(57)
- Write-down of inventory	*5*	**151**	151
- Fair value adjustment on derivative financial instrument	*17*	**(37,424)**	(13,318)
- Gain on disposal of property, plant and equipment		**(2,666)**	(5,147)
- Amortisation of capitalised transaction costs	*7*	**559**	455
- Finance expense	*7*	**155,782**	147,407
- Finance income	*6*	**(4,379)**	(179)
- Adjustment for non-cash element of pension charge	*31.5*	**346**	413
Operating cash flow before changes in working capital		**324,318**	350,094
Decrease in finance lease receivables	*14*	**1,170**	1,083
(Increase)/decrease in trade and other receivables and contract assets	*4,15*	**(7,078)**	3,126
Increase in other liabilities and contract liabilities		**5,336**	24,331
Decrease in provisions		**(165)**	-
(Decrease)/increase in trade and other payables		**(1,053)**	4,331
Cash flow generated by operating activities		**322,528**	382,965
Taxation paid		**(32,146)**	(3,728)
Group relief receipt		**2**	1
Interest received	*6*	**4,379**	179
Net cash generated by operating activities		**294,763**	379,417
Cash flow from investing activities			
Acquisition of property, plant and equipment		**(11,767)**	(22,695)
Proceeds from disposal of property, plant and equipment		**3,889**	18,578
Movement in amounts owed by group undertakings		**-**	8
Net cash utilised in investing activities		**(7,878)**	(4,109)
Cash flow from financing activities			
External borrowings paid	*24*	**(54,212)**	(39,927)
Bank loans paid	*24*	**-**	(6,127)
Repayment of lease liability	*16*	**(1,277)**	(1,043)
Interest paid on bonds	*24*	**(84,934)**	(85,631)
Interest paid on loan from Eversholt UK Rails Limited	*24*	**(47,891)**	(47,891)
Profit Participating Shares dividend paid	*24*	**(268)**	(265)
Interest paid on swaps	*24*	**(7,506)**	(7,553)
Capitalised transaction fees	*24*	**-**	(116)
Other financing fees		**(4,343)**	(1,425)
Dividends paid	*29*	**(40,700)**	(41,800)
Net cash utilised in financing activities		**(241,131)**	(231,778)
Net movement in cash and cash equivalents		**45,754**	143,530
Cash and cash equivalents at the beginning of the year		**225,064**	81,534
Cash and cash equivalents at the end of the year	*21*	**270,818**	225,064

Consolidated statement of changes in equity

for the year at 31 December 2022

	Note	Share capital £'000	Other reserve £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2021		-	13,672	(81,881)	(382,174)	(450,383)
Profit for the year		-	-	-	54,557	54,557
Effective portion of changes in fair value of cash flow hedges	*17*	-	-	3,894	-	3,894
Transfer of loss on cash flow hedges to Income statement	*17*	-	-	5,203	-	5,203
Transfer of 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)**
Profit for the year		-	-	-	**52,803**	**52,803**
Effective portion of changes in fair value of cash flow hedges	***17***	-	-	**13,189**	-	**13,189**
Transfer of loss on cash flow hedges to Income statement	***17***	-	-	**5,033**	-	**5,033**
Transfer of loss on cash flow hedges to Property, plant and equipment	***17***	-	-	**141**	-	**141**
Tax charge on effective portion of changes in fair value of cash flow hedges	***17***	-	-	**(4,289)**	-	**(4,289)**
Actuarial gain on defined benefit scheme after tax		-	-	**-**	**6,037**	**6,037**
Total comprehensive income		-	-	**14,074**	**58,840**	**72,914**
Dividend paid	***29***	-	-	-	**(40,700)**	**(40,700)**
Balance at 31 December 2022		-	**13,672**	**(56,162)**	**(347,515)**	**(390,005)**

Dividends of £399,020 (2021: £409,804) per share were paid during the year.

“Other reserve” 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 reserve 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 2022

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 sterling (£'000), which is also the Group's functional currency. 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").

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".

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 2022, there were no unendorsed standards effective for the year ended 31 December 2022 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 and the Group.

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 during 2021 and 2022 and were effective for accounting periods beginning on or after 1 January 2022 unless otherwise indicated. They have no material effect on the financial statements:

- 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);
- Reference to the Conceptual Framework (Amendments to IFRS 3); 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.

2. Basis of preparation (continued)

2.3 Standards and interpretations issued by the IASB (continued)

At 31 December 2022, 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 2022. Subject to UK adoption (unless otherwise stated), they are applicable 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 2023 (all UK adopted):

- Definition of Accounting Estimates (Amendments to IAS 8);
- Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12); and
- IFRS 17 Insurance Contracts; including Amendments to IFRS 17 and Initial Application of IFRS 17 and IFRS 9—Comparative Information.

Deferred until not earlier than 1 January 2024:

- Amendments to IAS 1 (Non-current Liabilities with Covenants, Deferral of Effective Date and Classification of Liabilities as Current or Non-Current).

Effective for accounting periods beginning on or after 1 January 2024:

- Accounting for a Lease Liability in a Sale and Leaseback (amendments to IFRS 16).

Effective for eligible entities for accounting periods beginning before 1 January 2023:

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

2.4 Going concern

The Directors have considered: its forecasts and projections; current financial resources (including cash of £270,818,000 (2021: £225,064,000) and undrawn committed borrowing facilities of £450,000,000 as at 31 December 2022 (2021: £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 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 Directors do not believe that COVID-19 presents a material risk to the Group.

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 these 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 two leases' terms (17 years, 9 months and 5 years, 9 months), it is subsequently measured at cost less accumulated depreciation and impairment losses.

The 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).

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. Summary of significant accounting policies (continued)

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 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.

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 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. Summary of significant accounting policies (continued)

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 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.

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. Summary of significant accounting policies (continued)

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. Details in relation to financial liabilities are considered below.

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.

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.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Impairment of financial assets (continued)

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

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.

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.

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 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 schemes

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/asset 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) is deducted. The Group determines the net interest on the net defined benefit liability/asset 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/asset.

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 obligation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, having taken into account the fair value of any plan assets, 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/asset recognised in the Statement of financial position represents the fair value of plan assets less present value of defined benefit obligation 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. This can lead to measurement that involves uncertainty. In such case, an accounting estimate is developed to achieve the objective established by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information, reflecting historical experience and other relevant factors.

Actual results may differ from those estimates. The estimates and underlying assumptions are accordingly 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.

3. Summary of significant accounting policies (continued)

3.16 Use of judgements, estimates and assumptions (continued)

In addition, IAS 1 "presentation of Financial Statements", requires disclosure of judgements made by management in applying an entity's accounting policies, other than those relating to estimation uncertainty (see below). As in prior years, no significant judgements are noted. Other than in relation to the valuation of the defined pension obligations, the value in use of rolling stocks and tax, there are no significant estimates and assumptions in applying the Group's accounting policies. Accounting estimates are considered significant in the context of IAS 1, if there is a significant risk of a material change to the carrying value of assets and liabilities within the next year.

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

The following are the areas involving significant 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.

- Valuation of defined benefit retirement scheme – see note 31; and
- Recoverability and value in use of rolling stock – see note 3.16b and 12;
- Tax – see note 11.

a. Valuation of defined benefit retirement scheme

In making their estimate of the valuation of the defined benefit pension scheme, the Directors have made a number of assumptions, based on advice from an independent actuary. The Directors are required to estimate the future rates of inflation, discount rates and life expectancy of members, each of which may have a material impact on the valuation of the defined benefit pension scheme. Sensitivities to changes in these assumptions are shown 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)	
	2022 **£'000**	**2021** **£'000**
End of final lease term		
1 year increase	**64,182**	113,231
1 year reduction	**(62,911)**	(120,450)
Projected rentals:		
1% increase	**19,735**	24,170
1% reduction	**(19,735)**	(24,170)
Discount rate*:		
0.3% (2021: 0.1%) increase	**(58,916)**	(25,463)
0.3% (2021: 0.1%) reduction	**61,389**	25,850

* 0.3% change is used in the discount rate sensitivity analysis, in light of the current market conditions.

The assumptions in relation to the above are the only key areas that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

3. Summary of significant accounting policies (continued)

3.16 Use of judgements, estimates and assumptions (continued)

c. Tax

The Group's current tax expense and current tax asset/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 consolidated financial statements include other areas of judgement and accounting estimates. While these areas do not meet the definition under IAS 1 of significant accounting estimates or critical accounting judgements, the recognition and measurement of certain material assets and liabilities are based on assumptions and/or are subject to longer term uncertainties. The other areas of judgement and accounting estimates are: useful economic lives of rolling stock (note 12) and the recognition of maintenance income (note 4.1).

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. Arising in the UK, total income can be analysed as follows:

	Group	
	Year ended 31 December 2022 £'000	**Year ended 31 December 2021 £'000**
Operating lease rental income	**320,599**	359,741
Finance lease income	**366**	443
Revenue from contracts with customers		
- Maintenance income	**52,633**	61,737
- Other income	**2,305**	4,227
	375,903	426,148

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 regarded by the Group, 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), as expenditure is incurred.

The transaction price allocated to (partially) unsatisfied performance obligations as at 31 December 2022 is set out below.

4. Revenue from contracts with customers (continued)

4.1 Revenue information (continued)

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:

	2022 £'000	2021 £'000
Within 1 year	**43,867**	41,427
1-5 years	**116,099**	104,840
	159,966	146,267

Other income

Other income primarily relates to the provision in the UK of asset management services £2,305,000 (2021: £4,227,000).

The transaction price allocated to (partially) unsatisfied performance obligations as at 31 December 2022 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:

	2022 £'000	2021 £'000
Within 1 year	**2,600**	2,600
1-2 years	**1,600**	1,600
2-5 years	**667**	4,800
>5 years	**-**	14,800
	4,867	23,800

Revenue is recognised over time as services are provided (when the customers receive the benefit), as determined by reference to transaction prices agreed with customers. There are no contract balances or trade receivables held in relation to this.

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 2022 £'000	As at 31 December 2021 £'000	As at 01 January 2021 £'000
Contract assets	**6,808**	2,855	2,037
Contract liabilities	**9,554**	10,567	53,364
Trade receivables	**7,793**	9,380	8,069

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 £9,247,000 (2021: £53,364,000) recognised in contract liabilities at the beginning of the year has been recognised as revenue for the year ended 31 December 2021.

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

4. Revenue from contracts with customers (continued)

4.2 Contract balances (continued)

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.

5. Cost of sales

	Group	
	Year ended 31 December 2022 £'000	**Year ended 31 December 2021 £'000**
Depreciation – rolling stock and other railway assets (note 12)	**(106,002)**	(119,651)
Write-down of rolling stock (note 12)	**(33,666)**	(21,685)
Depreciation – right-of-use asset – other railway assets (note 13)	**(739)**	(196)
Maintenance cost	**(29,278)**	(53,775)
Write-down in the value of inventories	**(151)**	(151)
	(169,836)	(195,458)

6. Finance income

	Group	
	Year ended 31 December 2022 £'000	**Year ended 31 December 2021 £'000**
Bank interest	**4,379**	179

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

7. Finance expense

	Group	
	Year ended 31 December 2022 £'000	**Year ended 31 December 2021 £'000**
Interest payable to Eversholt UK Rails Limited	**(47,891)**	(47,891)
Profit participating preference share dividend	**(254)**	(270)
Interest payable on bonds	**(84,400)**	(85,349)
Bonds – other finance costs	**(3,305)**	(3,931)
Fees payable on undrawn committed borrowing facilities	**(1,691)**	(1,720)
Amortisation of capitalised transaction costs	**(559)**	(455)
Finance expense in relation to financial liabilities carried at amortised cost	**(138,100)**	(139,616)
Transfer from hedging reserve (note 17)	**(5,033)**	(4,242)
Lease liability interest (note 16)	**(197)**	(69)
Interest payable in relation to swaps	**(7,472)**	(7,456)
Other finance costs	**(5,539)**	3,521
Total	**(156,341)**	(147,862)

7. Finance expense (continued)

Other finance costs in 2021 relate to the release of an accrual for interest on overdue tax that had been accrued at 31 December 2020. Following the resolution of a number of outstanding issues with the tax authorities (see note 11), this interest was no longer due and therefore, the interest accrual was released as part of “finance expense”.

8. Administrative expense

Other than payroll costs in note 9, administrative expense includes:	Group	
	Year ended 31 December 2022 £’000	**Year ended 31 December 2021 £’000**
Foreign exchange loss	**(6)**	(4)
Depreciation – other assets	**(34)**	(438)
Depreciation – right-of-use assets	**-**	(233)
Profit on reassessment of lease term	**-**	57
Defined contribution pension costs	**(799)**	(779)
Fees payable to the Company’s auditor for the audit of the Group’s annual financial statements	**(636)**	(479)

9. Staff numbers and costs

The average monthly 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 2022 Number	**Year ended 31 December 2021 Number**
Directors	**5**	5
Operations	**44**	44
Administration	**54**	53
	103	102

The aggregate payroll costs of these persons were as follows:

	Group	
	Year ended 31 December 2022 £’000	**Year ended 31 December 2021 £’000**
Wages and salaries	**(12,617)**	(12,047)
Social security costs	**(1,638)**	(1,552)
Contributions to defined contribution pension scheme	**(799)**	(779)
Defined benefit pension scheme service cost	**(438)**	(501)
	(15,492)	(14,879)

Notes to the annual financial statements (continued)
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10. Directors' emoluments

	Company Year ended 31 December 2022 £'000	Company Year ended 31 December 2021 £'000
Directors' emoluments for services to the Group	**(2,502)**	(2,115)

The emoluments of the highest paid Director, including benefits in kind were £1,075,000 (2021: £938,000).

The accrued pension contributions paid by the Company in respect of the highest paid Director for the year were £nil (2021: £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.

11. Income tax charge

	Note	Group Year ended 31 December 2022 £'000	Group Year ended 31 December 2021 £'000
Current tax			
UK Corporation tax			
- On current year result		**(30,231)**	(19,568)
- On prior year result		**1,920**	14,489
		(28,311)	(5,079)
Deferred tax			
Origination and reversal of temporary differences	***18***	**10,744**	1,133
Change in tax rate	***18***	**2,342**	(19,118)
Adjustment in respect of prior year	***18***	**(3,480)**	(545)
		9,606	(18,530)
Income tax charge		**(18,705)**	(23,609)

Corporation tax has been calculated by reference to the current tax rate of 19% (2021:19%).

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 2022 and are as follows:

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

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

11. Income tax charge (continued)

The following table reconciles the tax charge which would apply if all profits had been taxed at 19% (2021: 19%).

	Group	
	Year ended 31 December 2022 £'000	**Year ended 31 December 2021 £'000**
Profit before tax	**71,508**	78,166
Taxation at corporation tax rate of 19% (2021: 19%)	**(13,587)**	(14,851)
Change in tax rate	**2,342**	(19,118)
Prior years adjustment	**(1,560)**	13,944
Non-taxable income	**4,169**	3,469
Permanent tax differences	**(3,115)**	(3,101)
Unrecognised tax attribute*	**(6,954)**	(3,952)
Income tax charge	**(18,705)**	(23,609)

*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 loss of £6,303,000 recognised in total comprehensive income (2021: £3,196,000 gain).

Tax receivable in the Statement of financial position

The Group's tax receivable at 31 December 2022 is £9,727,000 (31 December 2021: £9,727,000).

This relates to tax recoverable in relation to prior years, following the settlement of a number of outstanding issues with tax authorities in 2021. 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 2021	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**
Additions	**-**	**11,908**	**11,908**
Disposals	**-**	**(192,828)**	**(192,828)**
Balance at 31 December 2022	**346**	**3,091,537**	**3,091,883**
Accumulated depreciation and write-downs			
Balance at 1 January 2021	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**
Charge for the year	**34**	**106,002**	**106,036**
Write-down	**-**	**33,666**	**33,666**
Disposals	**-**	**(191,605)**	**(191,605)**
Balance at 31 December 2022	**337**	**1,120,133**	**1,120,470**
Carrying value at 31 December 2022	**9**	**1,971,404**	**1,971,413**
Carrying value at 31 December 2021	43	2,100,387	2,100,430

Notes to the annual financial statements (continued)
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12. Property, plant and equipment (continued)

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 Group has written down the net book value of rolling stock by £33,666,000 (2021: £21,685,000). This reflects the extent to which the net book value of rolling stock exceeded recoverable value. The write-down is included as part of accumulated depreciation.

2022 additions include a debit from other comprehensive income (being a realised loss on cashflow hedges) of £141,000 (2021: £1,188,000 credit) and bank loan capitalised interest of £nil (2021: £32,000).

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

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 2021	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**
Depreciation charge	**-**	**-**	**(739)**	**(739)**
Re-measurement**	**-**	**-**	**6,526**	**6,526**
As at 31 December 2022	**-**	**-**	**7,247**	**7,247**

*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 led to a profit of £57,000 in 2021.

**This relates to the re-measurement of the depot lease right-of-use assets as a consequence of an increase in rentals payable under the agreements. There is a corresponding adjustment to the lease liabilities (see note 16).

Lease rentals are reviewed periodically in accordance with the terms of the agreement and revised accordingly.

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

14. Finance lease receivables

	Group	
	2022	**2021**
	£'000	**£'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	**921**	2,302
Total gross investment in finance leases	**2,302**	3,683
Unearned finance income	**(137)**	(348)
Net investment in finance leases less provisions	**2,165**	3,335
Amortisation of finance lease receivables		
Amounts falling due:		
No later than one year	**1,265**	1,171
Later than one year and no later than five years	**900**	2,164
Present value of minimum lease receivables	**2,165**	3,335
Aggregate finance lease income receivable in the year	**366**	443

The Group has entered into a finance leasing arrangement for one of its depots. This lease is due to expire in 2 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	
	2022	**2021**
	£'000	**£'000**
Trade receivables	**7,793**	9,380
Accrued income	**5,336**	-
Other receivables	**2,071**	2,695
	15,200	12,075

Trade receivables includes £2,793,000 (2021: £4,179,000) in relation to operating lease rentals that have been accrued and for which a 12-month expected credit loss allowance of £358,000 (2021: £622,000) is carried. During the year there has been a decrease of £264,000 in the expected credit loss allowance (year ended 31 December 2021: £269,000). 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 2021	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**
Interest charge	**-**	**-**	**197**	**197**
Payments	**(372)**	**-**	**(905)**	**(1,277)**
Re-measurement**	**-**	**-**	**6,526**	**6,526**
As at 31 December 2022	**-**	**-**	**7,749**	**7,749**

16. Lease liabilities (continued)

*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. The reassessment led to a profit of £57,000 in 2021. The lease terminated during 2022.

**This relates to the re-measurement of the depot lease liabilities as a consequence of an increase in rentals payable under the agreements. There is a corresponding adjustment to the right-of-use assets.

Total lease liabilities can be analysed as follows:

	2022 £'000	**2021 £'000**
Current	**617**	603
Non-current	**7,132**	1,700
	7,749	2,303

Maturity of lease liabilities

The maturity profile of the Group's undiscounted lease liabilities at 31 December 2022 was as follows:

	2022 £'000	**2021 £'000**
Current	**769**	640
In more than one year but not more than two years	**720**	268
In more than two years but not more than five years	**1,871**	466
In more than five years	**5,300**	1,171
Non-current	**7,891**	1,905

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	**2022 £'000**	**2021 £'000**
Non-current assets			
Fair value – excluding accrued interest		**124,008**	16,415
Accrued interest		**702**	1,525
		124,710	17,940
Non-current liabilities			
Fair value – excluding accrued interest		**(209,974)**	(152,994)
Accrued interest		**(3,016)**	(3,873)
		(212,990)	(156,867)
Total derivative financial instruments (excluding accrued interest)		**(85,966)**	(136,579)
Total accrued interest		**(2,314)**	(2,348)

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

17. Derivative financial instruments (continued)

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

31 December 2022	**Maturity**	**Notional Amount**	**Fair Value Amount**	**Change in fair value used for calculating hedge ineffectiveness**
		£'000	**£'000**	**£'000**
Non-current assets				
Interest rate swap contracts	April 2040	**(300,000)**	**74,186**	**-**
Interest rate swap contracts	July 2045	**(247,673)**	**40,831**	**-**
Interest rate swap contracts – hedge accounted	October 2049	**(237,500)**	**8,991**	**17,647**
		(785,173)	**124,008**	**17,647**
Non-current liabilities				
Interest rate swap contracts	June 2040	**300,000**	**(135,924)**	**-**
Interest rate swap contracts	July 2045	**247,673**	**(74,050)**	**-**
		547,673	**(209,974)**	**-**
Total derivative financial instruments		**(237,500)**	**(85,966)**	**17,647**

31 December 2021	**Maturity**	**Notional Amount**	**Fair Value Amount**	**Change in fair value used for calculating hedge ineffectiveness**
		£'000	**£'000**	**£'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 2045	(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

The fair value of derivative financial instruments at 31 December 2022 is based on market rates at 31 December 2022. The comparative fair values at 31 December 2021 are based on market rates at 31 December 2021.

The 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2022

17. Derivative financial instruments (continued)

Movement in fair value of Derivative financial instruments

	Interest rate swap contracts		
	Not hedge accounted £'000	Current hedge accounted £'000	Total £'000
Balance as at 1 January 2022	**(127,923)**	**(8,656)**	**(136,579)**
Unrealised gain through the Income statement			
- Hedge ineffectiveness		**4,458**	**4,458**
- Change in fair value of non-hedge accounted derivatives	**32,966**		**32,966**
	32,966	**4,458**	**37,424**
Unrealised gain through Other comprehensive income	**-**	**13,189**	**13,189**
Balance as at 31 December 2022	**(94,957)**	**8,991**	**(85,966)**
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)

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 2022	**(153)**	**(1,677)**	**72,066**	**70,236**
Unrealised gain through Other comprehensive income	**-**	**(13,189)**	**-**	**(13,189)**
Effective portion of changes in fair value of cash flow hedges	**-**	**(13,189)**	**-**	**(13,189)**
Transfer to Property, plant and equipment	**(141)**	**-**	**-**	**(141)**
Transfer to Income statement	**-**	**-**	**(5,033)**	**(5,033)**
Income tax on Other comprehensive income	**46**	**3,296**	**947**	**4,289**
Balance as at 31 December 2022	**(248)**	**(11,570)**	**67,980**	**56,162**
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)
Transfer to Property, plant and equipment	1,189	-	(1)	1,188
Transfer to Income statement	-	-	(5,203)	(5,203)
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

17. Derivative financial instruments (continued)

17.1 Foreign exchange forward contracts

The Company has no outstanding foreign exchange forward contracts as they were all settled in 2020.

When foreign exchange forward contracts are 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, any exchange differences arising on translating the EUR cash deposits to sterling, are wholly recognised in the hedging reserve. The hedging reserve therefore contains balances relating to foreign exchange differences arising on EUR cash deposits that hedge future committed rolling stock expenditure.

During the year, a loss of £141,000 (31 December 2021: £1,188,000 gain) was realised in property, plant and equipment additions. The residual loss recognised in other comprehensive income will amortise to property, plant and equipment in line with the payment profile of the hedged capital expenditure.

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 £67,980,000 (2021: £72,066,000) relating to Interest rate swaps terminated in prior years remain in the hedging reserve and will be recognised in the Income statement in future years, when the originally hedged future cashflows occur. At 31 December 2022, the Company held interest rate swaps with a fair value liability of £94,957,000 (2021: £127,923,000) which were not designated in hedging relationships for accounting purposes.

As at 31 December 2022, the Group's hedge accounted swaps were deemed to be highly effective and the fair value asset associated to these interest rate swaps was £8,991,000 (2021: £8,656,000 liability).

Hedge ineffectiveness gain of £4,458,000 (2021: £626,000 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 £13,189,000 (2021: £3,894,000 loss); and
- interest rate swaps used as a basis of recognising hedge ineffectiveness gain of £17,647,000 (2021: £4,520,000 gain).

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 Security Group either defaults on or repays the bonds before maturity. The embedded derivatives resulting from such arrangements have been valued at £nil (2021: £nil) on the basis that the Group is not in default and is not forecast to be in default or to repay bonds early.

See note 32 for details of interest rate risk management.

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. Interest was paid under the new rate for the first time in early 2022. In each case, LIBOR was 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 did not introduce any significant change in risk. Therefore, the Group's risk management strategy did not change.

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	
	2022	**2021**
	£'000	**£'000**
Deferred tax liabilities	**81,748**	102,289
Deferred tax assets	**(30,452)**	(47,690)
	51,296	54,599

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 (obligation)/ asset £000's**	**Tax losses £000's**	**Other tax attributes £000's**	**Total £000's**
At 1 January 2021	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
(Credit)/charge to Income statement	**(17,105)**	**85**	**6,305**	**(69)**	**(4)**	**44**	**(10,744)**
Charge to Other comprehensive income	**-**	**-**	**3,487**	**1,531**	**-**	**-**	**5,018**
Effect of change in tax rate:							
- Income statement	**(4,107)**	**7**	**1,864**	**(22)**	**(84)**	**-**	**(2,342)**
- Other comprehensive income	**-**	**-**	**802**	**483**	**-**	**-**	**1,285**
Prior year adjustments	**5**	**(63)**	**-**	**-**	**3,538**	**-**	**3,480**
At 31 December 2022	**81,082**	**(583)**	**(23,507)**	**666**	**(6,142)**	**(220)**	**51,296**

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 2022 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 £26,254,000 (2021: £17,183,000) in relation to interest expense disallowed for tax purposes in the financial year under the CIR rules. The CIR restriction includes a prior year adjustment of (£80,000), together with a current year disallowance of £6,955,000 and the effect of a change in tax rate (£2,196,000).

Notes to the annual financial statements (continued)
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19. Investments in subsidiaries

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

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2022	Ownership Percentage 2021
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 Limited*	Ordinary Shares	England***	Management services	100	100
Eversholt Depot Finance Limited*	Ordinary Shares	England***	Leasing	100	100
Eversholt Finance Holdings Limited*	Ordinary Shares	England***	Investment	100	100
Eversholt Funding Plc*	Ordinary Shares	England***	Financing	100	100
European Rail Finance (2) Limited*	Ordinary Shares	Ireland**	Investment	100	100

* Indirect subsidiaries

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

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

20. Inventory

	Group 2022 £'000	Group 2021 £'000
Rolling stock spares	-	151

The rolling stock spares have been written-down to £nil at the end of the year (2021: £151,000) (note 5). Stock is measured at the lower of cost and net realisable value.

21. Cash and cash equivalents

	Group 2022 £'000	Group 2021 £'000
Cash	**270,818**	225,064
Cash and cash equivalents	**270,818**	225,064

Within cash and cash equivalents there is a deposit of £2,600,000 (2021: £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 (2021: £500,000) is restricted cash in line with the terms of an agreement with the security trustee for the Group's secured creditors.

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

22. Trade and other payables

	Group 2022 £'000	2021 £'000
Trade payables	**20,974**	22,373
Lease rentals received in advance	**25,038**	26,039
Maintenance, acquisition and administrative accruals	**20,193**	18,894
Other accruals	**305**	244
	66,510	67,550

23. Borrowings

	Group 2022 £'000	2021 £'000
Current		
Interest accrued	**17,505**	18,053
Bonds	**54,212**	54,212
Capitalised transaction costs	**(249)**	(518)
	71,468	71,747
Non-current		
Bonds	**1,828,699**	1,879,606
Capitalised transaction costs	**(5,366)**	(5,656)
Profit Participating Shares	**2,500**	2,500
Loan from Eversholt UK Rails Limited	**340,562**	340,562
	2,166,395	2,217,012
Total borrowings	**2,237,863**	2,288,759

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 2022 and 2021.

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 the finance set out in the above table have been capitalised and are being amortised using the effective interest method over the term of the borrowings.

Bond principal amount	Interest rate Semi-annual coupon	Due date
£271m	6.359%	2025
£357m*	6.698%	2023-2035
£100m	SONIA+margin	2029-2036
£90m	Fixed rate	2030
£50m	Fixed rate	2029-2036
£100m	Fixed rate	2026-2031
£100m	Fixed rate	2037
£400m	3.529%	2034-2042
£449m**	2.742%	2023-2040

None of the Bonds is puttable.

*£28,571,000 (2021: £14,286,000) of the bond was repaid in 2022.

**£25,641,000 (2021: £25,641,000) of the bond was repaid in 2022.

Notes to the annual financial statements (continued)

for the year ended 31 December 2022

23. Borrowings (continued)

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 SONIA 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 with SONIA 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 repay) 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 2022 was as follows:

	Group	
	2022 **£'000**	**2021** **£'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**	433,986
In more than five years	**1,683,563**	1,734,470
Transaction costs	**(5,366)**	(5,656)
	2,166,395	2,217,012

24. Reconciliation of assets and liabilities arising from financing activities

31 December 2022	**As at 31 December 2021 £'000**	**Non-cash finance expense £'000**	**Cash Flows payments £'000**	**As at 31 December 2022 £'000**
Financing activities attributable to:				
Liabilities				
Bond interest accrued	**17,966**	**84,400**	**(84,934)**	**17,432**
Swap Interest accrued	**2,348**	**7,472**	**(7,506)**	**2,314**
Profit Participating Share dividends	**87**	**254**	**(268)**	**73**
Bonds	**1,933,818**	**3,305**	**(54,212)**	**1,882,911**
Profit Participating shares	**2,500**	**-**	**-**	**2,500**
Loan from Eversholt UK Rails Limited	**340,562**	**47,891**	**(47,891)**	**340,562**
Other loan	**-**	**-**	**-**	**-**
	2,297,281	**143,322**	**(194,811)**	**2,245,792**
Assets				
Capitalised transaction costs	**(6,174)**	**559**	**-**	**(5,615)**

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

24. Reconciliation of assets and liabilities arising from financing activities (continued)

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)

*Bank loan capitalised interest of £nil (2021: £32,000) is transferred to Property, plant and equipment (see note 12).

25. Other liabilities

Other liabilities primarily 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	
	2022 £'000	2021 £'000
Current	**22,450**	11,290
Non-current	**189,336**	191,273
	211,786	202,563

26. Provisions

The provision related to dilapidations on leased office buildings and has now been settled.

	2022 £'000	2021 £'000
Balance at beginning of the year	**165**	165
Utilised	**(165)**	-
Balance at the end of the year	**-**	165

27. Share capital

	Company 2022 £	Company 2021 £
Authorised		
102 Ordinary shares of £1 each (2021: 102)	**102**	102
Allotted, called up and fully paid		
102 Ordinary shares of £1 each (2021: 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 2022 £'000	Group 2021 £'000
Authorised and contracted	**36,642**	34,111

The above represents all capital commitments.

29. Dividends

For the year ended 31 December 2022, dividends of £40,700,000 were paid (2021: £41,800,000).

30. Financial instruments

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

Group	*Note*	Carrying amount	Fair value		
31 December 2022			Level 1	Level 2	Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	*17*	124,710		124,710	
Amortised cost					
- Finance lease receivables	*14*	2,165		2,165	
- Trade and other receivables	*15*	15,200		15,200	
- Cash and cash equivalents	*21*	270,818		270,818	
Total financial assets		412,893			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	*17*	212,990		212,990	
Amortised cost					
- Publicly traded bonds	*23*	1,442,911	1,280,318		
- Fixed rate borrowings	*23*	340,000		278,924	
- Other borrowings	*23*	460,567		460,567	
- Trade and other payables	*22*	66,510		66,510	
Total financial liabilities		2,522,978			
Total financial instruments		(2,110,085)			

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

30. Financial instruments (continued)

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

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.

The financial liabilities measured at amortised cost in the above table can be reconciled to note 23 as follows:

	2022 £'000	2021 £'000
Total financial liabilities as per above	**2,522,978**	2,519,350
Derivative financial instruments	**(212,990)**	(157,867)
Capitalised transaction costs	**(5,615)**	(6,174)
Trade and other payables	**(66,510)**	(67,550)
Borrowings per note 23	**2,237,863**	2,288,759

31. Retirement benefit scheme

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 19.70% of Section pay for the year ended 31 December 2022 (19.65% for the year ended 31 December 2021).

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.

31.2 Membership data

	31 December 2022	31 December 2021
Active members		
Number	**13**	13
Number with Protected Rights Pension ("PRP") included	**9**	9
Annual payroll (£'000)	**1,100**	1,000
PRP include (£'000)	**100**	-
Average age	**54**	53
Deferred members		
Number	**42**	42
Total deferred pensions (£'000)	**291**	289
Average age	**57.2**	56.2
Pensioner members (including dependants)		
Number	**56**	57
Estimated annual pension payroll (£'000)	**1,369**	1,430
Average age	**70.0**	68.5

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

31. Retirement benefit scheme (continued)

31.3 Summary of assumptions

Section assets	Value at 31 December 2022 £'000	Value at 31 December 2021 £'000
Growth assets	**13,410**	28,921
Government bonds	**20,243**	10,746
Non-government bonds	**9,884**	9,254
Other assets	**204**	163
	43,741	49,084

	31 December 2022 %pa	31 December 2021 % pa
Discount rate	**4.75**	1.85
Price inflation (RPI measure)	**3.35**	3.45
Increases to deferred pensions (CPI measure)	**2.95**	3.05
Pension increases (CPI measure)	**3.35**	3.45
Salary increases plus 0.4% pa promotional salary scale	**2.95**	3.05

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

	31 December 2022	31 December 2021
Male currently age 65	**22.6**	22.6
Male currently age 45	**24.2**	24.2
Female currently age 65	**23.7**	23.7
Female currently age 45	**25.6**	25.6

31.4 Defined benefit (asset)/liability at end of year

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Active members	**9,686**	13,310
Deferred members	**8,614**	12,479
Pensioner members (incl. dependants)	**20,976**	31,672
Total DBO	**39,276**	57,461
Value of assets at end of year	**(43,741)**	(49,084)
Funded status at end of year	**(4,465)**	8,377
Adjustment for the members' share of deficit	**1,786**	(3,351)
Net defined benefit (asset)/liability at end of the year	**(2,679)**	5,026

The Company has recognised a pension asset of £2,679,000 in accordance with IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". This on the basis that the Company has an unconditional right to any surplus on a winding up of the Section, when the Section no longer has any active, deferred or pensioner members and at which point there would be no benefits to be increased using any surplus existing at that time.

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

31. Retirement benefit scheme (continued)

31.5 Reconciliation of net defined benefit (asset)/ liability

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening net defined benefit liability	**5,026**	8,915
Employer's share of pension expense	**530**	616
Employer contributions	**(184)**	(203)
Total gain recognised in Statement of comprehensive income	**(8,051)**	(4,302)
Closing net defined benefit (asset)/liability	**(2,679)**	5,026

31.6 Pension expense

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Employer's share of service cost	**397**	447
Employer's share of administration costs	**41**	54
Total employer's share of service cost	**438**	501
Employer's share of net interest on net defined benefit liability	**92**	115
Employer's share of pension expense	**530**	616

31.7 Other comprehensive income

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Loss/(gain) due to liability experience	**2,509**	(468)
Gain due to liability assumption changes	**(13,597)**	(472)
Return on plan assets less/(greater) than discount rate	**3,037**	(3,362)
Total gain recognised in Statement of comprehensive income	**(8,051)**	(4,302)

31.8 Reconciliation of DBO

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening DBO	**57,461**	59,411
Service cost	**658**	741
Interest cost on DBO	**1,050**	762
Loss/(gain) on DBO - experience	**4,153**	(998)
Gain on DBO – demographic assumptions	**(492)**	(114)
Gain on DBO - financial assumptions	**(22,170)**	(673)
Actual benefit payments	**(1,384)**	(1,668)
Closing DBO	**39,276**	57,461

Notes to the annual financial statements (continued)
for the year ended 31 December 2022

31. Retirement benefit scheme (continued)

31.8 Reconciliation of DBO (continued)

This obligation is projected to mature as follows:

Time period	Expected payments £'000
5 years to 31 December 2027	**9,600**
5 years to 31 December 2032	**11,300**
5 years to 31 December 2037	**12,200**
5 years to 31 December 2042	**11,900**
After 1 January 2043	**35,200**

31.9 Reconciliation of value of assets

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening value of Section assets	**49,084**	44,553
Interest income on assets	**897**	570
Return on plan assets (less)/greater than discount rate	**(5,062)**	5,415
Employer contributions	**184**	203
Employee contributions	**91**	101
Actual benefit payments	**(1,384)**	(1,668)
Administration costs	**(69)**	(90)
Closing value of Section assets	**43,741**	49,084

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.

31.10 DBO sensitivity analysis to significant actuarial assumptions

Year ended 31 December 2022	Sensitivity	Approximate increase in DBO £'000
Discount rate	-0.25% p.a.	**1,300**
Price inflation (CPI measure)*	+0.25% p.a.	**1,300**
Salary increases	+0.25% p.a.	**100**
Life expectancy	+1 year	**1,300**

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

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

The sensitivity figures above are as at 31 December 2022 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 2024, are 19.7% of Section pay.

The discounted mean term of the Section's liabilities is 18 years. Expected employer contributions for 2022 were £184,000 (2021: £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, as well as inflation risk. In respect of inflation in particular, the Group is closely monitoring changes in rates and future inflation expectations, as well as any potential consequences – at this stage however, it is not anticipated that there will be any material impact upon the Group. In addition, the Group is exposed to residual value risk from its ownership of rail assets and credit risk from leasing arrangements.

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.

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 and in turn, ensure that the fleet's condition is optimised when it is next available for leasing to a subsequent operator. 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, share capital and reserves.

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

32. Risk management (continued)

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 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.

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 2022 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.

Notes to the annual financial statements (continued)
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32. Risk management (continued)

32.4 Liquidity risk management

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 2022 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 the requirement of IFRS 9, the Group considers that an ECL of £358,000 is required at 31 December 2022 (2021: £622,000).

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 £450,000,000 revolving credit facility, written in November 2022 and which replaced the previous facility of £600,000,000. The new facility is for a period of five years, with the ability to extend for a total period of up to seven years.

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 2022						
Financial assets						
Fair value through profit or loss						
- Derivative financial instruments	**124,710**	**173,694**	**-**	**8,463**	**46,848**	**118,383**
Amortised cost						
- Finance lease receivables	**2,165**	**2,302**	**-**	**1,381**	**921**	
- Trade and other receivables	**15,200**	**15,200**	**-**	**15,200**	**-**	**-**
- Cash and cash equivalents	**270,818**	**270,818**	**270,818**	**-**	**-**	**-**
	412,893	**462,014**	**270,818**	**25,044**	**47,769**	**118,383**
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	**212,990**	**291,656**	**-**	**15,926**	**76,527**	**199,203**
Amortised cost						
- Trade and other payables	**66,510**	**66,510**	**-**	**66,510**	**-**	**-**
- Borrowings	**2,243,478**	**2,976,263**	**-**	**139,745**	**801,091**	**2,035,427**
	2,522,978	**3,334,429**	**-**	**222,181**	**877,618**	**2,234,630**
Total financial instruments	**(2,110,085)**	**(2,872,415)**	**270,818**	**(197,137)**	**(829,849)**	**(2,116,247)**

Notes to the annual financial statements (continued)
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32. Risk management (continued)

32.4 Liquidity risk management (continued)

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						
Fair value through profit or loss						
- Derivative financial instruments	17,940	19,877	-	2,777	972	16,128
Amortised cost						
- Finance lease receivables	3,335	3,683	-	1,381	2,302	-
- Trade and other receivables	12,075	12,075	-	12,075	-	-
- 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)

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

	2022 £'000	2021 £'000
Borrowings as per above	**2,243,478**	2,294,933
Less: transaction costs	**(5,615)**	(6,174)
Borrowings per note 23	**2,237,863**	2,288,759

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 £24,000 (2021: £35,000) 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 2022 (2021: at 31 December 2021) and represents a reasonable approximation of possible change.

32.5.2 Interest rate risk management

The Group's cash flow interest rate risk arises from its borrowings and cash deposits. 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 2022, after adjusting for the effect of derivative financial instruments detailed in note 17, approximately 95 per cent (2021: 95 per cent) of £1,882,911,000 (2021: £1,933,818,000) debt was at fixed rates of interest.

32. Risk management (continued)

32.5.3 Interest rate sensitivity analysis

A 50 basis points increase in SONIA would have resulted in an increase in interest expense of £500,000 (2021: £500,000 increase based on LIBOR) and an increase interest received on cash amounts of £1,326,000 (2021: £822,000 based on LIBOR). 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 for SONIA would have led to a fair value gain of £5,623,000 (2021: £11,075,000 gain based on LIBOR) in derivative 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:

- 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.

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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	
	2022	**2021**
	£'000	**£'000**
Within one year	**277,022**	297,089
1-2 years	**261,329**	191,480
2-3 years	**210,581**	175,108
3-4 years	**179,437**	109,065
4-5 years	**162,999**	94,322
Over 5 years	**268,075**	82,312
	1,359,443	949,376
Aggregate operating lease rentals receivable in the year	**320,599**	359,741

The Group as lessee:

The Group subleased certain right-of-use assets in relation to land and has recognised income of £156,000 during the year (2021: £145,000), which is included in the rentals receivable shown above.

34. Related-party transactions

34.1 Identity of related parties

The Directors of the Company consider the ultimate parent and controlling party to be UK Rails S.A.R.L. incorporated in Luxembourg.

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

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

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

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

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

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

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 £106,000 (2021: £115,000) to UK Rails S.A R.L.

The Group was charged a consultancy service fee of £120,000 (2021: £120,000) by Eversholt UK Rails Limited and received a management fee of £51,000 (2021: £62,000) from Eversholt UK Rails Limited during the year.

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for the year ended 31 December 2022

34. Related-party transactions (continued)

34.3 Remuneration of key management personnel

	Company	
	2022	**2021**
	£'000	**£'000**
Short-term employment benefits	**2,137**	2,018
Other long-term employment benefits	**379**	121
	2,516	2,139

Directors' emoluments are disclosed in note 10.

35. Contingent liabilities

There were no contingent liabilities for the Group at 31 December 2022 (2021: £nil).

36. Subsequent events

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

Company statement of financial position
as at 31 December 2022

	Note	**2022 £'000**	**2021 £'000**
Assets			
Non-current assets			
Investments in subsidiaries	*6*	**763,997**	763,997
Amounts owed by group undertakings	*7*	**340,699**	340,711
Deferred tax	*9*	**39**	-
		1,104,735	1,104,708
Current assets			
Current tax		**-**	28
Cash and cash equivalents	*10*	**2,600**	2,600
		2,600	2,628
Total assets		**1,107,335**	1,107,336
Liabilities and equity			
Current liabilities			
Trade and other payables	*11*	**54**	47
Non-current liabilities			
Amounts owed to group undertakings	*7*	**340,562**	340,562
Total liabilities		**340,616**	340,609
Equity			
Share capital	*12*	**-**	-
Retained earnings		**766,719**	766,727
Total equity		**766,719**	766,727
Total equity and liabilities		**1,107,335**	1,107,336

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 £40,692,000 (2021 £41,681,000) attributable to equity shareholders during the year. Total comprehensive income for 2021 and 2022 comprised solely the profit for the year.

The notes on pages 75 to 81 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 2023. They were signed on its behalf by:

A J Wesson
Director

Company registration number: 10783654

Company statement of cash flows
for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flow from operating activities			
Profit before tax		**40,679**	41,653
Adjustments for:			
- Dividend income		**(40,700)**	(41,800)
- Finance income	*8*	**(47,894)**	(47,892)
- Finance expense		**47,891**	47,891
Operating cash flow before changes in working capital		**(24)**	(148)
Decrease in trade receivables		**-**	110
Increase in trade payables		**7**	23
Group relief received		**2**	2
Net cash utilised in operating activities		**(15)**	(13)
Cash flow from investing activities			
Finance income received	*8*	**47,892**	47,892
Movement in intercompany loan with Eversholt UK Rails Limited	*8*	**-**	8
Movement in intercompany loan with Eversholt Rail Limited	*8*	**14**	4
Dividends received	*4*	**40,700**	41,800
Net cash generated by investing activities		**88,606**	89,704
Cash flow from financing activities			
Finance expense paid	*8*	**(47,891)**	(47,891)
Shareholder dividends paid	*4*	**(40,700)**	(41,800)
Net cash utilised in financing activities		**(88,591)**	(89,691)
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 2022

	Note	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2021		-	766,846	766,846
Total comprehensive income	*4*	-	41,681	41,681
Dividends paid	*4*	-	(41,800)	(41,800)
Balance at 31 December 2021		-	766,727	766,727
Total comprehensive income	*4*	**-**	**40,692**	**40,692**
Dividends paid	*4*	**-**	**(40,700)**	**(40,700)**
Balance at 31 December 2022		**-**	**766,719**	**766,719**

Dividends of £399,020 per share were paid during the year (2021: £409,804 per share).

Notes to the annual financial statements
for the year ended 31 December 2022

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 sterling (£'000), which is also the Company's functional currency. 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.

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 2022, there were no unendorsed standards effective for the year ended 31 December 2022 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 of 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.

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 £270,818,000 (2021: £225,064,000) and undrawn committed borrowing facilities of £450,000,000 as at 31 December 2022 (2021: £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 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2022

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 significant accounting estimates and assumptions that management have made in applying the Company's accounting policies. There are no accounting estimates that have a significant risk of causing a material adjustment to the carrying value of amounts of assets and liabilities within the next financial year.

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 £40,692,000 (2021: £41,681,000 profit) attributable to equity shareholders during the year. The Company paid a dividend of £40,700,000 (2021: £41,800,000), equivalent to £399,020 per share (2021: £409,804).

5. Directors' emoluments

Non-executive directors	**2022** **£'000**	**2021** **£'000**
Directors' fees	**(14)**	(12)

6. Investments in subsidiaries

	2022 **£'000**	**2021** **£'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

	2022 **£'000**	**2021** **£'000**
Non-current assets		
Eversholt Rail Limited	**137**	149
Eversholt Investment Limited	**340,562**	340,562
	340,699	340,711
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 the Strategic report under the heading of Presentation of information. 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 2022

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

The maturity of the intercompany loan with Eversholt Rail Limited has been extended in the year, so that the loan is now repayable on 2 November 2027, rather than 4 November 2023 as was reported in 2021. Borrowing entities may prepay and redraw loans until the repayment date. Interest on the loan is receivable monthly at SONIA plus a relevant credit adjustment spread.

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 assets and liabilities arising from investing and financing activities

31 December 2022	**As at 31 December 2021 £'000**	**Non-cash finance Expense / (income) £'000**	**Cash flows payments £'000**	**As at 31 December 2022 £'000**
Financing activities attributable to: Liabilities				
Eversholt UK Rails Limited	**340,562**	**47,891**	**(47,891)**	**340,562**
Financing activities attributable to: Assets				
Eversholt Rail Limited	**(149)**	**(2)**	**14**	**(137)**
Eversholt Investment Limited	**(340,562)**	**(47,892)**	**47,892**	**(340,562)**
Eversholt UK Rails Limited	**-**	**-**	**-**	**-**
	(340,711)	**(47,894)**	**47,906**	**(340,699)**

31 December 2021	**As at 31 December 2020 £'000**	**Non-cash finance Expense / (income) £'000**	**Cash flows payments £'000**	**As at 31 December 2021 £'000**
Financing activities attributable to: Liabilities				
Eversholt UK Rails Limited	340,562	47,891	(47,891)	340,562
Financing activities attributable to: Assets				
Eversholt Rail Limited	(153)	0	4	(149)
Eversholt Investment Limited	(340,562)	(47,892)	47,892	(340,562)
Eversholt UK Rails Limited	(8)	0	8	0
	(340,723)	(47,892)	47,904	(340,711)

9. Deferred tax

The following is the analysis of the deferred tax asset:

	Tax losses £'000
Balance at 1 January 2021	-
Credit to Income statement	-
Effect of change in tax rate	-
- Income statement	-
Balance at 31 December 2021	**-**
Credit to Income statement	**4**
Prior year adjustment	**26**
Effect of change in tax rate	
- Income statement	**9**
Balance at 31 December 2022	**39**

10. Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2022 £'000	**2021 £'000**
Bank accounts	**2,600**	2,600

Cash and cash equivalents comprise a deposit of £2,600,000 (2021: £2,600,000) which is restricted as it provides security for the Profit Participating Shares issued by a subsidiary.

11. Trade and other payables

	2022 £'000	**2021 £'000**
Accruals	**54**	47

12. Share capital

	2022 £	**2021 £**
Authorised, called up and fully paid		
102 Ordinary shares of £1 each	**102**	102

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 and foreign exchange risk, as well as inflation risk. In respect of inflation in particular, the Company is closely monitoring changes in rate and any potential consequences – at this stage however, there is no material impact upon the Company.

There are no 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. This is 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.

13. Risk management (continued)

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, Eversholt UK Rails Limited.

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.

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 SONIA would have resulted in an increase in intercompany interest income of £70 (2021: £70 based on LIBOR). 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.

13. Risk management (continued)

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 £450,000,000 revolving credit facility, written in November 2022 and which replaced the previous facility of £600,000,000. The new facility is for a period of five years, with the ability to extend for a total period of up to seven years.

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	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2022						
Financial assets						
Amortised cost						
Amounts owed by Eversholt Investment Limited	**340,562**	**340,562**	**340,562**	**-**	**-**	**-**
Amounts owed by Eversholt Rail Limited	**137**	**137**	**-**	**-**	**137**	**-**
Cash and cash equivalents	**2,600**	**2,600**	**2,600**	**-**	**-**	**-**
	343,299	**343,299**	**343,162**	**-**	**137**	**-**
Financial liabilities						
Amortised cost						
Trade and other payables	**54**	**54**	-	**54**	-	**-**
Loan from Eversholt UK Rails Limited	**340,562**	**340,562**	-	**-**	-	**340,562**
	340,616	**340,616**	-	**54**	-	**340,562**
Total financial instruments	**2,683**	**2,683**	**343,162**	**(54)**	**137**	**(340,562)**

	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2021						
Financial assets						
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	343,162	-	149	-
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	343,162	(47)	149	(340,562)

13. Risk management (continued)

Liquidity risk management (continued)

In the Statement of financial position as at 31 December 2022, the Company has presented the “Amounts owed by Eversholt Investment Limited” of £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 2022 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 2022 (2021: £nil).

16. Subsequent events

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