
GB RAILFREIGHT LIMITED

Registered in United Kingdom

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2021

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Company Registered Number: 03707899

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Officers and Professional Advisers

The board of directors

K Goulding-Davis
J Smith

Registered office

3rd Floor
55 Old Broad Street
London, EC2M 1RX
United Kingdom

Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Bankers

HSBC Bank plc
London Regional Service Centre Europe
PO BOX 125, 2nd Floor,
62-76 Park Street,
London
SE1 9DZ

Strategic Report

The principal activity of GB Railfreight Limited ("GBRf") is the provision of rail freight services in Britain. The directors do not expect a significant change in the principal activity of the business in the foreseeable future.

The company's key financial and other performance indicators during the year were as follows:

| | 2021 £000 | 2020 £000 | Change % |
|---|--------------|--------------|-------------|
| Revenue | 227,535 | 182,902 | 24.4 |
| Operating profit | 14,035 | 9,035 | 55.3 |
| (Loss)/Profit for the financial year | 3,111 | 127 | 2,349.6 |
| Shareholder's equity | 59,312 | 50,181 | 18.2 |
| | | | |
| Current assets as % of current liabilities ('quick ratio') | 93.3% | 72.3% | 21.0 |
| Weighted-average customer satisfaction based on quality, price and service (scale 0 to 10 with 0 being Poor and 10 being Excellent) | 7.5 | 7.8 | -0.3 |
| Average number of employees | 1,009 | 925 | +9.1 |

GBRf revenue increased from £182,902,000 in 2020 to £227,535,000 an increase of 24.4%. Operating profit for the financial year increased by 55.3%, with a net profit margin of 1.4% (2020: 0.1%).

Key achievements in 2021:

- Played a key role in remodelling Kings Cross station as the sole supplier of engineering trains
- Started 4 new intermodal services
- Increased Maritime Transport space commitment across existing and new flows, and secured 2-year deal

Other significant events in 2021:

- Opened new Peterborough office and training centre
- Introduced the first Class 69 locomotive (a recycled Class 56 locomotive fitted with a more powerful engine)
- Delivered a charity charter train raising £147k for Prostate Cancer UK

Future development

The company remains committed to investing in its existing facilities and employees to aid its future growth. Improving the safety on the rail network continues to be a key ongoing objective to build a safer environment for the general public and employees alike.

GBRf are committed to responsible carbon management and will practise energy efficiency throughout the organisation, wherever it is cost effective. We recognise that climate change is one of the most serious environmental challenges currently threatening the future of the global community and we understand we have a role to play in reducing greenhouse gas emissions. The actions being implemented by the company that can be referenced from the SECR section on pages 8 and 9 will contribute to reducing our carbon footprint in the future.

Employees

The Company recognises and appreciates the pivotal role of employee engagement and its impact on the business. The Directors engage with employees through various mechanisms, including but not limited to digital communication, regular group briefings (in person and via remote access) and publication of newsletters. Employee feedback is encouraged and accepted as a medium for change when directors making decisions that may affect employees' interests. The company promotes and invests in training, development, and awareness of governance related matters for all employees as it views it as vitally important to its continued success.

Principal risks and uncertainties

The Directors have identified the following risks and mitigating factors affecting the Company:

Credit risk

The company is exposed to credit risks if customers potentially fail to discharge their payment obligation. Company policies are aimed at minimising such losses and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Credit worthiness is continuously monitored, and credit exposure is controlled accordingly.

Liquidity risk

The company is potentially exposed to liquidity risk in respect to meeting obligations associated with financial liabilities. The company mitigates liquidity risk by monitoring actual cashflows against forecast, meeting cash collection targets and ensuring adequate cash reserve availability. The company also utilises short and long- term intercompany loan facilities.

UK government grants

The company receives government grant money to subsidise the movement of intermodal container traffic by rail. This generates significant environmental and wider social benefits from reduced lorry journeys on Britain's roads. Whilst this grant is issued by The Department for Transport in the UK, these are essentially based on an EU driven framework and an EU sponsored scheme. It is unclear how these may evolve in a post Brexit environment. However, these grants will continue into the near future with 2021 seeing no significant difference to 2020. The scheme has been approved by the EU commission to operate until 31st March 2025.

Section 172 (1) Statement

In accordance with section 172 of the Companies Act 2006 the Board must act in the way that they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole.

Our directors have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term
- interests of our employees
- need to foster the company's business relationships with all stakeholders including both suppliers and customers
- impact of the company's operations on communities and the environment
- desirability of the company maintaining a reputation for high standards of business conduct
- need to act fairly between members of the company.
- Safety in all its activities

The long-term

The Board oversees the company's strategic direction, is in line with long-term objectives of the group. It also ensures the organisation is focused on creating shareholder value and working within a framework of compliance with statutory and regulatory obligations being met. The Board delegates day-to-day responsibilities to various functional senior management.

Board meetings are held regularly throughout the year, where all strategic and other matters affecting the company are discussed. Any urgent matters requiring immediate approval are dealt with in ad hoc meetings of the Board which tend to be less formal than the regular Board meetings.

Employees and Stakeholders

The company communicates with employees regularly where employee interests are affected, employee engagement is further explained in the Director Report. Key stakeholders are considered to be employees, customers, suppliers, communities, HM Government and regulators. Positively managing stakeholder relationships are deemed to be essential to the success of the business.

The company also provides support services to other entities within its group which are governed by intercompany agreements.

**GB Railfreight Limited (No: 03707899)
Annual Report and Financial Statements
for the year ended 31 December 2021
Strategic Report (continued)**

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Section 172 (1) Statement (continued)

We use a variety of mechanisms to engage with our stakeholders, including face-to-face meetings, conferences, reviews/surveys, social media, presentations and training among other methods.

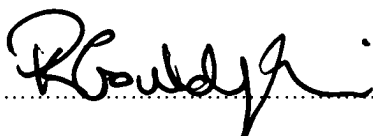
The company ensures employee needs are addressed in a manner that is appropriate and supports the values and purpose of the business. In recognition of the hard work staff contribute to the success of the business, the company holds social events open for all staff and their families to enjoy.

Business conduct, the Community and Environment

GB Railfreight aims to deliver a high-quality service in an energy efficient manner that contributes to providing a cleaner and environment friendly surrounding. The company takes into consideration the impact its investments and decisions are having on the local community.

The company's current fleet of class 92 electric locomotives and its agreement to bring into service Stadler Class 99 bi-mode locomotives during 2022 have and will contribute to reducing carbon emissions and help provide a cleaner environment for all.

The company continues to support charitable causes that aid the community, consistent with the last two years in support of Cancer related charities, the company raised funds for Prostate Cancer UK.



On behalf of the Board

Karl Goulding-Davis
Finance Director

28 September 2022

GB Railfreight Limited (No: 03707899)
Annual Report and Financial Statements
for the year ended 31 December 2021
Directors' Report

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The Directors present their report together with the financial statements of GB Railfreight Limited (the 'Company') for the year ended 31 December 2021.

Employee Engagement

The Company considers employees to be the brand ambassadors of the business who carry its core values and reputation. The Company invests in their development and values their input. Multiple methods of engagement are utilised to ensure employees are kept up-to-date with the progress of the business. The Directors hold regular business briefs to share company information on business performance and other decisions that may affect employees. In addition to printed newsletters, desktop and mobile technologies are also used to reach out to employees. The Company uses a central online information hub where all policies and employee guidance documentation is available to all internal staff.

Disabled Persons

The company recognises its obligation to give disabled people full and fair consideration for all vacancies within the statutory medical requirement that have to be met for certain grades of staff. Wherever reasonable and practicable, the Company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

Business Stakeholders

The Company has a wide range of stakeholders and understands the businesses success is embedded in meeting our stakeholders needs. The company engages with its stakeholders internally and externally at all levels of the business including through our frontline operations, our customer facing roles and statutory bodies where relationships are built upon lawful and fair practices.

Directors

The Directors who held office during the year or until the date of signing this report were:

K P Goulding-Davis
J G Smith

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Dividends

No final dividend was paid in the year (2020: Nil). No interim dividend was paid in the year (2020: Nil).

SECR Disclosure

The company has implemented various policies with the aim to improve business energy efficiency. Some actions taken are:

- This year increased static fuel tanks by 2, thereby continuing to contribute to reducing the number of lorry fuel deliveries, positively impacting carbon reduction. GBRf will continue to review and assess where further new tanks could be installed to help drive down supply chain emissions.
 - Continue to be part of the industry wide Decarbonisation Project led by the RSSB (Rail Safety & Standards Board).
 - Continue to work with customers and suppliers on decarbonisation projects (notably Network Rail, TARMAC and other Aggregate companies).
-

GB Railfreight Limited (No: 03707899)
Annual Report and Financial Statements
for the year ended 31 December 2021
Directors' Report (continued)

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SECR Disclosure (continued)

- Fitment of Auto Start Stop & Monitoring technology on some of the locomotive fleet, thus reducing unnecessary fuel usage and providing consumption rates data for further assessment.
- GBRf is looking to trial new Carbon Neutral safety critical gloves in 2022
- A new electric Class 18 shunting locomotive is being trialled in 2022 at Whitemoor, for potential roll out to other sites in order to replace our diesel fleet where applicable.

| | 2021 | | 2020 | |
|--|--------------------|-----------------|--------------------|-----------------|
| | Energy KWh* | CO2e* Tonnes | Energy KWh* | CO2e* Tonnes |
| Combustion of Gas | 24,228 | 5 | 84,491 | 15 |
| Purchased Electricity | 3,591,897 | 1,046 | 2,420,163 | 514 |
| Other Fuels (Gas oil) | 470,397,452 | 150,345 | 406,377,893 | 104,354 |
| Business Travel | 5,725,821 | 1,862 | 5,109,351 | 1,398 |
| Total | 479,739,398 | 153,258 | 413,991,898 | 106,281 |
| Intensity Ratio (emission per gross tonne mile) | 0.024 | | 0.024 | |

*Energy use and greenhouse emissions

The company reports in line with the methodology as specified in the "environmental reporting guidelines: including Streamlined Energy and Carbon Reporting and greenhouse gas reporting" used in conjunction with Government GHG reporting conversion factors.

Political and charitable contributions

It is the policy of the company not to make political donations or incur political expenditure. Charitable donations totalling £39,959 (2020: £30,567) were made during the year.

Disclosure of information to auditor

The Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 4 to 7.

**GB Railfreight Limited (No: 03707899)
Annual Report and Financial Statements
for the year ended 31 December 2021
Directors' Report (continued)**

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Auditor

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, its exposure to credit, liquidity risk and operational risk are described in the Strategic report on pages 4 to 7 of these accounts.

The Company has net current liabilities amounting to £4,750k (2020: £20,841k) and net assets of £59,312k (2020: £50,181k). The Company generated profit before tax of £4,653k (2020: £869k)

In assessing whether the financial statements for the company should be prepared on a going concern basis, the directors considered the expected impact of Covid-19 on the business and wider rail industry together with the cash and facilities available to the company for the 12 months from the date these accounts were signed. During the year 2021 under the groups refinancing initiative the company utilised a £56m intercompany loan to settle secured debt with its third-party lenders. The period of the intercompany loan extends beyond the going concern period. The company ended 2021 with a significant positive cash balance of £11m. The Company has entered 2022 with improved financials and optimism largely driven by the lifting of most legal limits on social contact in July 21 and the ongoing recovery from the Covid-19 pandemic. Offices and depots have remained open in accordance with government guidelines, hence ensuring business continuity. Employees have adopted a hybrid model and returned to the offices and worked remotely when required.

The company has assessed the impact of the Russian/ Ukrainian conflict on the business and has assessed two potential risks, both of which are mitigated:

- Fuel price increase – The conflict, as well publicised, has pushed up the cost of diesel. Although a large portion of our contracts have fuel escalators built in there is a time lag between increase in price and recouping the difference. We have no concerns of assurance of supply.
- Build of assets. We currently have orders placed for the build of wagons to supplement and increase our fleet size to support the forecast and business plan. These wagons are / will be built in Poland and assurances have been given that existing orders will be honoured and delivered as planned. Although a portion of the materials and workforce are sourced from Ukraine with some of the latter returning home to fight in the war, the manufacturer holds enough raw materials and sufficient workforce to ensure production is uninterrupted. The delivery of GBRf's assets will be sourced from this stock of materials.

On the basis of the director's assessment and the stress tests carried out, they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Events since the balance sheet date

Since the balance sheet date GB Railfreight, Stadler and Beacon Rail have signed an agreement for the supply of 30 Class 99 bi-mode locomotives. The Class 99 is a versatile locomotive, adapted to the British gauge and specifications, combining 25 kV AC electric and diesel operating modes. It represents a new generation of locomotives that offers GB Railfreight many economic and environmental benefits and underscores its green credentials.

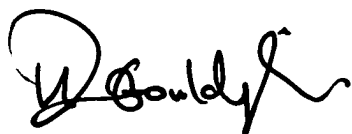
On 27th June 2022 a further £7.5m intercompany loan was utilised under the groups refinancing facility.

Directors' Report (continued)

Events since the balance sheet date (continued)

The company has assessed the impact of the Russian/ Ukrainian conflict on the business and has assessed two potential risks, both of which are mitigated:

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On behalf of the Board

Karl Goulding-Davis
Finance Director

28 September 2022

Registered Office:

3rd Floor
55 Old Broad Street
London
EC2M 1RX

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing the company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent.
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GB RAILFREIGHT LIMITED

Opinion

We have audited the financial statements of GB Railfreight Limited for the year ended 31 December 2021 which comprise the Statement of Profit and Loss Account and Other Comprehensive Income, Statement of Changes in Equity, Balance Sheet, Statement of Cash Flows and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the period then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 with the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 there is 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant is compliance with Office of Rail and Road, Rail Safety and Standard Boards, International Accounting Standards as well as requirements of the Companies Act 2006. The company has also to comply with laws regulations related to its operations such as Coronavirus Job Retention Scheme, UK tax legislation, UK employment regulations, UK Bribery Act and Global Data Protection Regulations (GDPR). In addition, the Company has to ensure its compliance to environmental, health and safety regulations, Money Laundering Regulations, Modern Slavery Act, Gender Pay Gap Reporting and Criminal Finance Act.
- We understood how GB Railfreight Limited is complying with this framework by understanding the oversight of those charged with governance (i.e. considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings), the culture of honesty and ethical behaviour and whether a strong emphasis is placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by challenging the company's policies and procedures on fraud risks. Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved:
 - Consideration of fraud risks during the planning of and throughout our audit.
 - Inquiring of Management as to the risks of fraud and the controls in place.
 - Understanding the oversight by those charged with governance of Management's controls over fraud risk including the whistleblowing processes by reviewing minutes of directors meetings.
 - Consideration of the effectiveness of Management's controls designed to address the risk of fraud.
 - Determining an appropriate strategy to address those identified risks of fraud.
 - Use of data analytics tools to analyse and sample journal entries for testing, outside of the identified fraud risks, to detect other unusual transactions.

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

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.



Mohan Pandian (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date 28 September 2022

Statement of Profit and Loss Account and Other Comprehensive Income
for the year ended 31 December 2021

| | Notes | 2021 £000 | 2020 £000 |
|---|-------|--------------|--------------|
| Revenue | 2 | 227,535 | 182,902 |
| Cost of sales | | (219,865) | (181,070) |
| Gross profit | | 7,670 | 1,832 |
| Other operating income | 3 | 6,370 | 7,203 |
| Foreign exchange loss- net | | (5) | 0 |
| Operating profit | 4 | 14,035 | 9,035 |
| Financial expense | 5 | (9,382) | (8,166) |
| Profit before taxation | | 4,653 | 869 |
| Taxation (charge) | 11 | (1,542) | (742) |
| Profit for the year | | 3,111 | 127 |
| Other Comprehensive Income | | | |
| Profit for the year | | 3,111 | 127 |
| <i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Remeasurement Gain/(loss) on defined benefit liability | 19 | 8,027 | (8,107) |
| Deferred tax on remeasurement on defined benefit liability | | (2,007) | 1,540 |
| Other comprehensive income/(loss) for the year, net of income tax | | 6,020 | (6,567) |
| Total comprehensive income/(loss) for the year | | 9,131 | (6,440) |

The notes on pages 21 to 53 form part of these financial statements.

Balance Sheet as at 31 December 2021

| | Notes | 2021 £000 | 2020 £000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 8 | 108,290 | 107,561 |
| Right of use assets | 18 | 182,466 | 142,264 |
| Intangible asset | 9 | 1,520 | 1,620 |
| Contract costs | 15 | 2,150 | 2,446 |
| | | <u>294,426</u> | <u>253,891</u> |
| CURRENT ASSETS | | | |
| Inventories | 10 | 4,981 | 5,229 |
| Trade and other receivables | 13 | 48,549 | 42,086 |
| Contract assets | 15 | 1,522 | 391 |
| Contract costs | 15 | 296 | 297 |
| Tax receivable | | - | 2,469 |
| Cash and cash equivalents | 12 | 10,996 | 3,989 |
| | | <u>66,344</u> | <u>54,461</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | (38,463) | (48,686) |
| Contract liabilities | 15 | (918) | (775) |
| Lease liabilities | 16 | (31,713) | (25,841) |
| | | <u>(71,094)</u> | <u>(75,302)</u> |
| NET CURRENT LIABILITIES | | | |
| | | <u>(4,750)</u> | <u>(20,841)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 289,676 | 233,050 |
| NON-CURRENT LIABILITIES | | | |
| Other payables | 14 | (58,712) | (39,898) |
| Lease liabilities | 16 | (158,359) | (125,872) |
| Deferred tax liability | 11 | (5,992) | (3,362) |
| Pensions and similar obligations | 19 | (7,301) | (13,737) |
| | | <u>(230,364)</u> | <u>(182,869)</u> |
| NET ASSETS | | | |
| | | <u>59,312</u> | <u>50,181</u> |
| EQUITY | | | |
| Called-up share capital | 17 | 9,000 | 9,000 |
| Retained earnings | | 50,312 | 41,181 |
| TOTAL EQUITY | | | |
| | | <u>59,312</u> | <u>50,181</u> |

The financial statements were approved by the board of directors on 28 September 2022 and were signed on its behalf by:-

Karl Goulding-Davis
Finance Director

Date 28/09/22

Company Registered Number: 03707899

The notes on pages 21 to 53 form part of these financial statements.

**Statement of Change in Equity
for the year ended 31 December 2021**

| | Called-up share capital £000 | Retained earnings £000 | Total equity £000 |
|--|---|---------------------------------------|----------------------------------|
| Balance at 1 January 2020 | 9,000 | 47,621 | 56,621 |
| Total comprehensive income for the year | | | |
| Profit for the year | - | 127 | 127 |
| Other comprehensive loss | - | (6,567) | (6,567) |
| Total comprehensive loss for the year | - | (6,440) | (6,440) |
| Balance at 31 December 2020 | 9,000 | 41,181 | 50,181 |
| | Called-up share capital £000 | Retained earnings £000 | Total equity £000 |
| Balance at 1 January 2021 | 9,000 | 41,181 | 50,181 |
| Total comprehensive income for the year | | | |
| Profit for the year | - | 3,111 | 3,111 |
| Other comprehensive income | - | 6,020 | 6,020 |
| Total comprehensive income for the year | - | 9,131 | 9,131 |
| Balance at 31 December 2021 | 9,000 | 50,312 | 59,312 |

Cash Flow Statement
for the year ended 31 December 2021

| | Notes | 2021 £000 | 2020 £000 |
|--|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit for the year before taxation | | 4,653 | 869 |
| <i>Adjustments for:</i> | | | |
| Depreciation and impairment | 8,18 | 47,775 | 41,630 |
| Amortisation | 9 | 371 | 619 |
| Financial expense | 5 | 9,382 | 8,166 |
| Movement in pensions and similar obligations | | 1,591 | 694 |
| Foreign exchange gain | | (5) | - |
| Other operating income | 3 | (6,370) | (7,203) |
| | | 57,397 | 44,775 |
| Decrease (increase) in trade and other receivables | | (5,927) | 6,651 |
| Decrease (increase) in contract assets | | (1,131) | 1,126 |
| Increase in contract costs | | 296 | 321 |
| Decrease (Increase) in inventory | | 248 | (476) |
| Increase/(decrease) in trade and other payables | | 2,539 | (6,945) |
| (Increase)/decrease in contract liabilities | | 142 | (860) |
| | | 53,564 | 44,592 |
| Interest paid | | (2,295) | (2,001) |
| Tax refund/ (paid) | | 1,016 | (1,293) |
| Net cash from operating activities | | 52,285 | 41,298 |
| Cash flows from investing activities | | | |
| Additions of property, plant and equipment | 8 | (14,124) | (12,752) |
| Additions of intangible asset | 9 | (271) | (414) |
| Receipt of government grants | | 6,370 | 7,203 |
| Net cash used in investing activities | | (8,025) | (5,963) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 56,030 | - |
| Payment of bank loans | | (49,977) | (1,475) |
| Payment of principle portion of lease liabilities | 18 | (43,311) | (29,663) |
| Net cash used in financing activities | | (37,258) | (31,138) |
| Net increase in cash and cash equivalents | | 7,002 | 4,197 |
| Effect of exchange rate fluctuations on cash held | | 5 | (0) |
| Cash and cash equivalents at 1 January | | 3,989 | (208) |
| Cash and cash equivalents at 31 December | 12 | 10,996 | 3,989 |

The notes on pages 21 to 53 form part of these financial statements

Notes to the Financial Statements

1 ACCOUNTING POLICIES

GB Railfreight Limited (the "Company") is a private company, which is limited by shares and is incorporated, domiciled and registered in England in the UK. The registered number is 03707899 and the registered address is 55 Old Broad Street, London, EC2M 1RX. The Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards in accordance with UK adopted international accounting standards.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment include the carrying value of pension obligations. The key judgements include the pension assumptions which have been disclosed in note 19.

(a) Measurement convention

The financial statements are prepared on the historical cost basis.

(b) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

(c) Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, its exposure to credit, liquidity risk and operational risk are described in the Strategic report on pages 4 to 7 of these accounts.

The Company has net current liabilities amounting to £4,750k (2020: £20,841k) and net assets of £59,312k (2020: £50,181k). The Company generated profit before tax of £4,653k (2020: £869k)

In assessing whether the financial statements for the company should be prepared on a going concern basis, the directors considered the expected impact of Covid-19 on the business and wider rail industry together with the cash and facilities available to the company for the 12 months from the date these accounts were signed. During the year 2021 under the groups refinancing initiative the company utilised a £56m intercompany loan to settle secured debt with its third-party lenders. The period of the intercompany loan extends beyond the going concern period. The company ended 2021 with a significant positive cash balance of £11m. The Company has entered 2022 with improved financials and optimism largely driven by the lifting of most legal limits on social contact in July 21 and the ongoing recovery from the Covid-19 pandemic. Offices and depots have remained open in accordance with government guidelines, hence ensuring business continuity. Employees have adopted a hybrid model and returned to the offices and worked remotely when required.

The company has assessed the impact of the Russian/ Ukrainian conflict on the business and has assessed two potential risks, both of which are mitigated:

- Fuel price increase – The conflict, as well publicised, has pushed up the cost of diesel. Although a large portion of our contracts have fuel escalators built in there is a time lag between increase in price and recouping the difference. We have no concerns of assurance of supply.

Notes to the Financial Statements

ACCOUNTING POLICIES (continued)

(c) Going concern (continued)

- Build of assets. We currently have orders placed for the build of wagons to supplement and increase our fleet size to support the forecast and business plan.

These wagons are / will be built in Poland and assurances have been given that existing orders will be honoured and delivered as planned. Although a portion of the materials and workforce are sourced from Ukraine with some of the latter returning home to fight in the war, the manufacturer holds

enough raw materials and sufficient workforce to ensure production is uninterrupted. The delivery of GBRf's assets will be sourced from this stock of materials.

On the basis of the director's assessment and the stress tests carried out, they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

(d) Revenue

The Company recognises revenue, when or as control over distinct goods or services is transferred to the customer, i.e. when the customer is able to direct the use of the transferred goods or services and obtains substantially all of the remaining benefits, provided a contract with enforceable rights and obligations exists and amongst others collectability of consideration is probable taking into account our customers' creditworthiness. Revenue is the transaction price the Company expects to be entitled to. Variable consideration is included in the transaction price if it is highly probable that a significant reversal of revenue will not occur once associated uncertainties are resolved. The amount of variable consideration is calculated by either using the expected value or the most likely amount depending on which is expected to better predict the amount of variable consideration. Consideration is adjusted for the time value of money if the period between the transfer of goods or services and the receipt of payment exceeds twelve months and there is a significant financing benefit either to the customer or the Company. If a contract contains more than one distinct good or service, the transaction price is allocated to each performance obligation based on relative stand-alone selling prices. If stand-alone selling prices are not observable, the Company reasonably estimates those.

Revenue is recognised for each performance obligation over time.

Freight service

The Company performs freight service through haulage of freight by rail based on a container or tonnage basis. Freight service is recognised over time as shipments move from origin to destination since the customer simultaneously receives and consumes the benefit as the Company performs such service.

Freight-related service

The Company performs freight-related services such as the Company provides locomotives and/or drivers to move a customer's facilities between specified origin and

Notes to the Financial Statements

1 ACCOUNTING POLICIES (continued)

(d) Revenue (continued)

destination points, and other ancillary related services to the movement of freight. Freight-related services is recognised as services are performed or as contractual obligations are fulfilled.

Freight and freight-related services relate to the Company's principal activities and are performed within the United Kingdom. Payment terms are usually 30 days from the date of invoice issued according to the contractual terms.

Related expenses over freight and freight-related services are recognised as incurred unless they can be capitalised under another standard or they relate directly to a contract, generate or enhance resources of the company that will be used in satisfying performance obligations in the future, and are expected to be recovered.

Rental income

Rental income which mainly relates to subleasing of premises, is recognised on a straight-line basis over the lease term.

(e) Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the estimated useful economic lives of the assets to which they relate. Other grants are credited to the profit and loss account as the related expenditure is incurred.

(f) Foreign exchange

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the statement of profit or loss and other comprehensive income account.

(g) Property, plant, equipment and depreciation

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided to write off the cost less estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

| | |
|----------------------------|--------------------------------------|
| Short leasehold properties | - period of lease |
| Other plant and equipment | - three to forty years straight line |

Notes to the Financial Statements

1 ACCOUNTING POLICIES (continued)

(h) Intangible asset

Intangible asset is stated at cost, net of amortisation and any provision for impairment.

Amortisation is provided to write off the cost less estimated residual value of intangible asset by equal instalments over their estimated useful economic life of three years.

(i) Impairment of property, plant, equipment and depreciation and intangible asset

The carrying amount of the Company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement

(j) Contract assets, contract liabilities, receivables

When either party to a contract with customers has performed, the Company presents a contract asset, a contract liability or a receivable depending on the relationship between the Company's performance and the customer's payment. Contract assets and liabilities are presented as current since incurred in the normal operating cycle. Receivables are recognized when the right to consideration becomes unconditional. Valuation allowances for credit risks are set up for contract assets and receivables according to the accounting policy for financial assets measured at amortised cost.

(k) Contract cost

The Company has recognised incremental costs of obtaining a contract and certain costs to fulfil a contract to be recognised as an asset if certain criteria are met. Any capitalised contract costs assets must be amortised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer.

Capitalised contract costs are subject to an impairment assessment at the end of each reporting period. Impairment losses are recognised in profit or loss.

(l) Inventories

Stocks are stated at the lower of cost and net realisable value on a first in first out basis. Stock primarily comprises of spare parts for ongoing maintenance of assets and diesel fuel. Provision is made for obsolete and or defective items where appropriate.

(m) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation

Notes to the Financial Statements

1 ACCOUNTING POLICIES (continued)

(m) Taxation (continued)

purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

(n) Pension scheme

Certain of the Company's employees are members of an industry-wide defined benefit pension plan. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured

using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Past service cost and settlement gains (losses) are recognized immediately in profit or loss while remeasurements comprising of actuarial gains and losses as well as the difference between the return on plan assets and the amounts included in net interest on the net defined benefit liability (asset), are recognised in other comprehensive income, net of income taxes.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of comprehensive income.

The Company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

(o) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets held by the Company are classified, at initial recognition, as either financial assets at fair value through profit or loss or financial assets measured at amortised cost. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Financial liabilities owed by the Company is classified, at initial recognition, at fair value through profit or loss. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other receivables

Trade and other receivables are generally classified as financial assets measured at amortised cost under IFRS 9 and recognised when it is probable that a future economic

Notes to the Financial Statements

1 ACCOUNTING POLICIES (continued)

(o) Financial instruments (continued)

benefit will flow to the Company. Trade and other receivables are carried at original invoice amount (deemed as the fair value by management) less any provisions for impairment. For accounts receivables and contract assets, the Company applies a simplified approach in calculating expected credit loss (ECL). Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Subsequent to initial recognition, such financial assets are measured at amortised cost using the effective interest method, less impairment.

Trade and other payables

Trade and other payables are classified as financial liabilities measured at amortised cost under IFRS 9 and are recognised initially at fair value. After initial recognition, they are subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

(p) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

(q) Provision

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is a pre-tax rate that reflects risks specific to the liability

Notes to the Financial Statements

1 ACCOUNTING POLICIES (continued)

(r) Leases

At the inception of a lease GBRf assesses if the contract is or contains a lease under the definition of the standard (IFRS 16). The standard itself sets out the criteria to assist in making that determination and conveys the right to control the use of an asset over a period in exchange for a form of consideration. In making the assessment GBRf considers the following:-

- The contract involves the use of an identified asset either explicitly or implicitly. The asset must be physically distinct or represent substantially all the capacity of the physically distinct asset. An assessment is carried out on any potential substitution rights the supplier may have and if they are substantive in nature which would indicate that as a lessee, we do not have the right to use an identified asset and are not considered distinct and therefore a lease does not exist.
- That GBRf has the right to significantly obtain all the economic benefit relating to the use of the asset throughout the period of use
- That GBRf has the right to direct the use of the asset including decision making over the most relevant aspects of how and what the asset is used for

Lease liabilities are initially recognised at the present value of lease payments over the expected term of lease taking into consideration any break clauses that GBRf may choose to exercise. The present value is calculated using the GBRf's incremental borrowing rate that it would have to pay for a loan of similar term against a similar asset type and value.

Lease payments are defined, but not limited to:-

- Fixed regular payments
- Variable lease payments depending upon a known rate or index
- Amounts expected to be paid under residual value guarantees
- Payments expected to be made over a reasonably certain period where the contract allows provision for extension or renewal
- Payments for early termination where it is reasonably certain that GBRf will exercise that option.

Any lease liability and RoU asset will be remeasured if there is a change in any of the above or assessment regarding the anticipated length of lease. The change may also in some cases require re-rating of the IBR that is applied.

Low value

GBRf has deemed that only office equipment by nature can be low value. All other asset classes that GBRf employs by nature could not be deemed low value in nature e.g. Land & Buildings, Rolling stock (Locomotives & Wagons) and Motor vehicles.

Upon transition and on an ongoing basis low value leases will continue to be accounted for on a straight-line basis.

Short term leases

GBRf has determined that agreements of shorter than 2 months are deemed to be short term hires and as such do not constitute a lease. Therefore, GBRf has decided that these will continue to be accounted for as they have previously. This policy is in addition to the practical expedient available in the standard

Notes to the Financial Statements

1 ACCOUNTING POLICIES (continued)

(r) Leases (continued)

of continuing to account for leases of short-term considered less than 12 months. GBRf has elected to not apply this expedient on either transition or on an ongoing basis.

Separation of lease and non-lease components

As allowed within the standard GBRf has elected, on a lease by lease basis to separate out lease and non-lease costs. In the main we have elected to separate out service elements for Land & building & Locomotives whilst including maintenance against the Wagon portfolio.

Reasonably certain and anticipated lease life

The standard requires the determination of the lease term. The definition of the lease term is the non-cancellable period of a lease, together with both:

- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

GBRf is required to assess the above and consider with reasonable certainty if either of these options both exist and will be exercised. Due to the changing nature of both the business, railfreight market and changing asset base GBRf is in the main using the contractual end date irrespective of options for early termination or extension clauses.

GBRf will keep this policy under review and based upon changing organisation and business requirements.

GBRf has made a policy decision that no lease shall have a reasonably certain life longer than 30 years. Therefore, no lease term is expected to extend beyond FY 2050. Likewise, as per the short-term lease exemption GBRf has made a policy that any "Lease" less than 2 months are deemed short term hires and do not meet the definition of a lease under IFRS 17.

The Company has lease contracts for land and buildings, machinery, motor vehicles, locomotives and wagons. Lease of land and buildings have a lease terms between 2 and 37 years, machinery between 1 and 3 years, motor vehicles between 3 and 5 years, locomotives between 2 and 15 years and wagons between 2 and 10 years.

Notes to the Financial Statements

1 ACCOUNTING POLICIES (continued)

(s) New standards, interpretations and amendments

Standards issued but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

| Effective for annual periods (and interim periods therein) ending 31 December 2021 and thereafter | Effective date (annual periods beginning on or after) |
|--|---|
| Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37) | 1 Jan 2022 |
| Annual Improvements to IFRS Standards 2018-2020 | 1 Jan 2022 |
| Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) | 1 Jan 2022 |
| Reference to the Conceptual Framework (Amendments to IFRS 3) | 1 Jan 2022 |
| IFRS 17 Insurance Contracts | 1 Jan 2023 |
| Classification of liabilities as current or non-current (Amendments to IAS 1) | 1 Jan 2023 |
| Amendments to IFRS 17 | 1 Jan 2023 |
| Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) | 1 Jan 2023 |
| Definition of Accounting Estimate (Amendments to IAS 8) | 1 Jan 2023 |
| Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction - Amendments to IAS 12 Income Taxes | 1 Jan 2023 |

The Directors are currently evaluating the impact of these standards that are not yet mandatory on the Company's financial statements. Early adoption is not planned and all the standards will be adopted on their effective dates.

2 REVENUE

| | 2021 £000 | 2020 £000 |
|-------------------------|----------------|----------------|
| Freight service | 207,622 | 166,969 |
| Freight-related service | 13,877 | 9,988 |
| Rental income | 6,036 | 5,945 |
| | <u>227,535</u> | <u>182,902</u> |

Freight and freight-related service are recognised over time and are derived within the United Kingdom.

The Company's performance obligations are summarised below:

Notes to the Financial Statements

2 REVENUE (continued)

Freight service

The performance obligation is satisfied upon delivery of the goods to agreed location and payment is generally due within 30 days from delivery. The customer benefit as the goods are moved and pays the transaction price equal to the cash selling price.

Freight-related service

The performance obligation is satisfied over time and payment is generally due upon completion of installation and acceptance of the customer.

In certain cases, the Company receives short-term advance payment from its customers prior to the performance of goods or service.

The Company has applied the practical expedient not to disclose that the transaction price allocated to the remaining performance obligations as of the end of the reporting period and when the entity expects to recognise as revenue since the performance obligation is part of a contract that has an original expected duration of one year or less.

3 OTHER OPERATING INCOME

| | 2021 £000 | 2020 £000 |
|------------------|--------------|--------------|
| Government grant | 6,370 | 7,203 |

The above grant solely relates to the grant received from the Department for Transport. This grant was to support the business in the shift of container traffic off roads onto rail. This grant is likely to continue for the foreseeable future.

4 OPERATING PROFIT

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| <i>Operating profit for the year includes:</i> | | |
| Energy and consumables | 47,000 | 34,768 |
| Staff costs | 57,458 | 48,059 |
| Auditor's remuneration | | |
| - audit of these financial statements (note 6) | 107 | 99 |
| Depreciation and amortisation (notes 8, 9 and 18) | | |
| - Amortisation | 371 | 619 |
| - Owned assets depreciation | 13,395 | 12,157 |
| - Right of use asset depreciation | 34,380 | 29,472 |
| Gain on disposal of fixed assets | - | - |
| Short term, Low value and other lease payments | 2,200 | 1,480 |

Notes to the Financial Statements

5 FINANCIAL EXPENSE

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Bank loans and overdrafts | 2,092 | 1,918 |
| Finance charges payable under finance leases and hire purchase contracts | 7,088 | 6,166 |
| Net finance expense on defined benefit pension scheme (note 19) | 202 | 82 |
| | <u>9,382</u> | <u>8,166</u> |

6 AUDITOR'S REMUNERATION

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

| | 2021 £000 | 2020 £000 |
|-----------------------------------|--------------|--------------|
| Audit of the financial statements | | |
| Statutory auditor | 107 | 99 |
| | <u>107</u> | <u>99</u> |

Notes to the Financial Statements

7 STAFF COSTS AND DIRECTORS REMUNERATION

(a) Staff numbers

The average number of persons employed by the Company (including directors) during the year was as follows:

| | 2021 | 2020 |
|----------------|--------------|------------|
| Operations | 729 | 677 |
| Administration | 280 | 248 |
| | <u>1,009</u> | <u>925</u> |

| | 2021 £000 | 2020 £000 |
|--|---------------|---------------|
| The aggregate payroll costs were as follows: | | |
| Wages and salaries | 57,458 | 48,059 |
| Social security costs | 6,325 | 5,377 |
| Other pension costs | 5,714 | 5,383 |
| | <u>69,497</u> | <u>58,819</u> |

Included in other pension costs are £2,929,000 (2020: £2,816,000) in respect of defined benefit schemes and £2,758,000 (2020: £2,587,000) in respect of the defined contribution scheme.

(b) Directors' remuneration

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Directors' remuneration | 748 | 692 |
| Company contributions to money purchase pension plans | 13 | 12 |
| | <u>761</u> | <u>704</u> |

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £495,000 (2020: £460,000) and company pension contributions of £Nil (2020: Nil) were made to a money purchase scheme on his behalf.

| | Number of directors | |
|--|---------------------|----------|
| | 2021 | 2020 |
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | 1 | 1 |
| | <u>1</u> | <u>1</u> |
| The number of directors who exercised share-based payments | - | - |

Notes to the Financial Statements

8 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold properties £000 | Other plant and equipment £000 | Asset in progress £000 | Total £000 |
|------------------------------------|---------------------------------|---|------------------------------|---------------|
| Cost | | | | |
| At 1 January 2021 | 6,732 | 158,684 | 6,413 | 171,829 |
| Additions | 3,930 | 10,194 | - | 14,124 |
| Transfer | - | 2,559 | (2,559) | - |
| At 31 December 2021 | 10,662 | 171,437 | 3,854 | 185,953 |
| Depreciation and impairment | | | | |
| At 1 January 2021 | 4,175 | 60,093 | - | 64,268 |
| Charge for the year | 510 | 12,885 | - | 13,395 |
| At 31 December 2021 | 4,685 | 72,978 | - | 77,663 |
| Net book value | | | | |
| At 31 December 2021 | 5,977 | 98,459 | 3,854 | 108,290 |
| At 31 December 2020 | 2,557 | 98,591 | 6,413 | 107,561 |
| Cost | | | | |
| At 1 January 2020 | 5,643 | 149,762 | 3,672 | 159,077 |
| Additions | 1,089 | 8,922 | 2,741 | 12,752 |
| At 31 December 2020 | 6,732 | 158,684 | 6,413 | 171,829 |
| Depreciation and impairment | | | | |
| At 1 January 2020 | 3,822 | 48,289 | - | 52,111 |
| Charge for the year | 353 | 11,804 | - | 12,157 |
| At 31 December 2020 | 4,175 | 60,093 | - | 64,268 |
| Net book value | | | | |
| At 31 December 2020 | 2,557 | 98,591 | 6,413 | 107,561 |
| At 31 December 2019 | 1,821 | 101,473 | 3,672 | 106,966 |

Notes to the Financial Statements

9 INTANGIBLE ASSET

The intangible asset relates to purchase of computer software.

| | 2021 £000 | 2020 £000 |
|-----------------------|--------------|--------------|
| Cost | | |
| At 1 January | 4,326 | 3,912 |
| Additions | 271 | 414 |
| At 31 December | 4,597 | 4,326 |
| Amortisation | | |
| At 1 January | 2,706 | 2,087 |
| Charge for the year | 371 | 619 |
| At 31 December | 3,077 | 2,706 |
| Net book value | 1,520 | 1,620 |

10 INVENTORIES

| | 2021 £000 | 2020 £000 |
|-----------------------------|--------------|--------------|
| Spare parts and consumables | 4,981 | 5,229 |

There is no material difference between the balance sheet carrying value of the stocks and their estimated replacement cost.

Charges on spare parts and consumables recognised as cost of sales in the year amounted to £29,981,000 (2020: £20,395,000).

Notes to the Financial Statements

11 TAXATION

(a) Analysis of charge for the year

| | 2021 £000 | 2020 £000 |
|--|----------------------|----------------------|
| Corporation tax | | |
| Current tax expense on income for the year | - | - |
| Prior year adjustment | 919 | - |
| Total current tax credit expense | 919 | - |
| Deferred tax | | |
| Origination/reversal of temporary differences | 623 | 1,317 |
| Prior year adjustment | - | (575) |
| Total deferred tax expense/(benefit) | 623 | 742 |
| Tax expense reported in profit and loss | 1,542 | 742 |
| | 2021 £000 | 2020 £000 |
| Deferred tax | | |
| Origination/reversal of temporary differences | 2,007 | (1,540) |
| Tax (benefit) reported in other comprehensive income | 2,007 | (1,540) |

(b) Reconciliation of total tax expense

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Profit before tax | 4,653 | 869 |
| Current tax expense at the rate of 19.00% (2020: 19.00%) | 884 | 165 |
| <i>Effects of:</i> | | |
| Fixed Asset differences | 73 | 67 |
| Expenses not deductible for tax purposes | (17) | 1,065 |
| Other Differences | (152) | 4 |
| Group relief surrendered/(claimed) | (432) | (407) |
| Adjustments to tax charge in respect of previous periods | 918 | - |
| Adjustments to tax charge in respect of previous periods – deferred tax | (119) | (575) |
| Deferred tax (charged)/credited directly to OCI | (482) | - |
| Temporary difference | - | 1 |
| Remeasurement of deferred tax for changes in tax rates | 1,315 | 422 |
| Movement in deferred tax not recognised | (446) | - |
| Total current tax expense | 1,542 | 742 |

Notes to the Financial Statements

11 TAXATION (continued)

(c) Net deferred tax liabilities

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| At 1 January | 3,362 | 4,160 |
| Amount charged to statement of profit or loss in respect of the current year | 623 | 742 |
| Amount charged/(credited) in other comprehensive income | 2,007 | (1,540) |
| At 31 December | 5,992 | 3,362 |

The elements of deferred taxation are as follows:

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Deferred tax liabilities | | |
| Difference between accumulated depreciation and capital allowances | (7,942) | (6,115) |
| Deferred tax assets | | |
| Provisions | 25 | - |
| Pension and post-retirement benefits (note 19) | 1,925 | 2,753 |
| Net deferred tax liabilities | (5,992) | (3,362) |

(d) Factors that may affect future tax charges

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023.

This rate has not been substantively enacted at the balance sheet date and as a result, any potential or unrecognised deferred tax balances as at 31 December 2021 continue to be measured at 19%.

Notes to the Financial Statements

12 CASH AND CASH EQUIVALENTS

| | 2021 £000 | 2020 £000 |
|--------------|--------------|--------------|
| Cash at bank | 10,996 | 3,989 |
| | 10,996 | 3,989 |

The Company continues to have access to a £5m revolving credit facility as part of the overall refinancing of the Group completed in December 2021.

13 TRADE AND OTHER RECEIVABLES

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Receivables falling due within one year: | | |
| Accounts receivables | 29,899 | 29,248 |
| Amounts receivable from related parties (note 24) | - | 39 |
| Accrued income | 16,841 | 11,718 |
| Prepayments | 1,007 | 913 |
| Other receivables | 902 | 315 |
| Allowance for expected credit losses | (100) | (147) |
| | 48,549 | 42,086 |

An impairment analysis for trade and other receivables and contract assets was performed at the reporting date in accordance with the simplified approach set out in accounting policy based on lifetime expected credit losses. As a result of calculations, loss allowance as at 31 December 2021 was (£100,000) (2020: £147,000) as follows:

| | 2021 £000 | 2020 £000 |
|--------------------------|--------------|--------------|
| At 1 January | (147) | (1,033) |
| Provided during the year | (100) | (147) |
| Write offs | 147 | 1,033 |
| At 31 December | (100) | (147) |

Notes to the Financial Statements

14 TRADE AND OTHER PAYABLES

| | 2021 £000 | 2020 £000 |
|---|----------------------|----------------------|
| Payables falling due within one year | | |
| Bank loans (note 16) | - | 12,631 |
| Accounts payable | 11,457 | 16,599 |
| Amounts owed to other payables | 5,465 | 1,571 |
| Accruals | 17,854 | 11,169 |
| Deferred income | 788 | 685 |
| VAT payable | 2,899 | 5,781 |
| Provisions (refer below) | - | 250 |
| | 38,463 | 48,686 |
| Payables falling due after one year | | |
| Bank loans (note 16) | - | 37,347 |
| Intercompany Loan | 58,712 | 2,551 |
| | 58,712 | 39,898 |
| | 2021 £000 | 2020 £000 |
| At 1 January | 250 | 250 |
| Provisions made during the year | - | - |
| Provisions released during the year | (250) | - |
| At 31 December | 0 | 250 |

In 2018, the Company booked an estimated provision for a potential fine related to a potential breach of the permit conditions to operate a customer site. Management feels the risk of a potential fine is extinct and as a result this provision was released in 2021.

Notes to the Financial Statements

15 CONTRACT BALANCES AND COSTS

| | 2021 £000 | 2020 £000 |
|----------------------|--------------|--------------|
| Contract assets | 1,522 | 391 |
| Contract costs | 2,446 | 2,743 |
| Contract liabilities | 918 | 775 |

Contract assets are initially recognised for revenue earned from freight and freight-related service as receipt of consideration is conditional on successful completion of service. Upon completion of service, the amounts recognised as contract assets are reclassified to Accounts receivables under Trade and other receivables.

Contract liabilities include short-term advance received from its customers prior to the performance of freight and freight-related service. The outstanding balances of these accounts increased in 2021.

Contract costs primarily relates to pre-contracts, set-up costs and cost incurred in the fulfillment of the contract. A portion of contract costs is falling due after one year amounting to £2,150,000 (2020: £2,446,000). The amount charged to Cost of sales from contract costs is £296,000 (2020: £322,000)

16 INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

| | 2021 £000 | 2020 £000 |
|---|----------------|----------------|
| Payables falling due within less than one year | | |
| Secured bank loans | - | 12,631 |
| Lease liabilities | 31,713 | 25,841 |
| | <u>31,713</u> | <u>38,472</u> |
| Payables falling due after one year | | |
| Lease liabilities | 158,359 | 125,872 |
| Secured bank loans | - | 37,347 |
| | <u>158,359</u> | <u>163,219</u> |

As a result of a group wide refinancing agreement with Greenhouse Bidco Limited who are an indirect parent company of GB Railfreight Limited and the original borrowers of the refinanced third party loan, all three secured bank loans and finance leases held by GB Railfreight Limited were extinguished through an intercompany loan from Greenhouse Bidco Limited.

Notes to the Financial Statements

16 INTEREST-BEARING LOANS AND BORROWINGS (continued)

Terms and debt repayment schedule

| | Currency | Nominal interest rate | Year of maturity | Repayment Schedule £000 | Carrying amount 2021 £000 | Carrying Amount 2020 £000 |
|-------------------|-------------|-----------------------------|---------------------|-------------------------------|------------------------------------|------------------------------------|
| Secured bank loan | £17,000,000 | 4.245% | 2021 | 364 per qtr | - | 12,006 |
| Secured bank loan | £13,000,000 | 4.013% | 2023 | 272 per qtr | - | 10,236 |
| Secured bank loan | £28,000,000 | 2.5% | 2024 | Full at end of the term | - | 27,736 |
| | | | | | - | 49,978 |

17 SHARE CAPITAL

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Ordinary shares with a nominal value of £1 each: | | |
| Authorised at 31 December | 9,000 | 9,000 |
| Allocated, called up and fully paid at 31 December | 9,000 | 9,000 |

Nil shares were issued in 2021 (2020: Nil ordinary shares issued during the year for £1 each).

Notes to the Financial Statements

18 OPERATING LEASES

The Company has lease contracts for land and buildings, machinery, motor vehicles, locomotives and wagons. Lease of land and buildings have a lease terms between 2 and 37 years, machinery between 1 and 3 years, motor vehicles between 3 and 5 years, locomotives between 2 and 15 years and wagons between 2 and 10 years. The Company has certain leases of Machinery with lease terms of 12 months or less and leases of office equipment with low value. The company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic. The company did not elect to adopt this practical expedient.

The financing element and indicative interest charge will be included within the Finance expense line on the face of the income statement.

Set out below are the carrying amounts of right-of-use assets recognised and movements during the period:

Right of use assets 2021

| | Land & Buildings £000 | Machinery £000 | Motor Vehicles £000 | Locomotives £000 | Wagons £000 | Total £000 |
|------------------------------------|--------------------------|-------------------|------------------------|---------------------|----------------|---------------|
| Cost | | | | | | |
| At 1 January 2021 | 10,017 | 18 | 1,885 | 97,044 | 89,049 | 198,013 |
| Additions * | 1,833 | 6 | 175 | 26,140 | 46,428 | 74,582 |
| Disposals | (405) | - | (420) | - | (3,732) | (4,557) |
| At 31 December 2021 | 11,445 | 24 | 1,640 | 123,184 | 131,745 | 268,038 |
| Depreciation and impairment | | | | | | |
| At 1 January 2021 | (1,995) | (12) | (1,041) | (21,230) | (31,471) | (55,749) |
| Disposals | 405 | - | 420 | - | 3,732 | 4,557 |
| Charge for the year | (1,004) | (6) | (673) | (11,775) | (20,922) | (34,380) |
| At 31 December 2021 | (2,594) | (18) | (1,294) | (33,005) | (48,661) | (85,572) |
| Net book value | | | | | | |
| At 31 December 2021 | 8,851 | 6 | 346 | 90,179 | 83,084 | 182,466 |

* Additions comprise increases to right of use assets as a result of entering into new leases and upwards measurement of existing leases arising from extensions or reassessments and increases to lease payments.

Notes to the Financial Statements

18 OPERATING LEASES (continued)

Right of use assets 2020

| | Land & Buildings £000 | Machinery £000 | Motor Vehicles £000 | Locomotives £000 | Wagons £000 | Total £000 |
|------------------------------------|--------------------------|-------------------|------------------------|---------------------|----------------|---------------|
| Cost | | | | | | |
| At 1 January 2020 | 10,403 | 12 | 1,338 | 74,852 | 70,235 | 156,840 |
| Additions * | (78) | 6 | 556 | 22,192 | 18,962 | 41,638 |
| Disposals | (308) | - | (9) | - | (148) | (465) |
| At 31 December 2020 | 10,017 | 18 | 1,885 | 97,044 | 89,049 | 198,013 |
| Depreciation and impairment | | | | | | |
| At 1 January 2020 | (1,266) | (6) | (394) | (10,637) | (14,439) | (26,742) |
| Disposals | 308 | - | 9 | - | 148 | 465 |
| Charge for the year | (1,037) | (6) | (656) | (10,593) | (17,180) | (29,472) |
| At 31 December 2020 | (1,995) | (12) | (1,041) | (21,230) | (31,471) | (55,749) |
| Net book value | | | | | | |
| At 31 December 2020 | 8,022 | 6 | 844 | 75,814 | 57,578 | 142,264 |

Amounts recognised in the profit & loss account

| | £000 |
|--|---------------|
| Depreciation of RoU | 34,380 |
| Interest expense on lease liabilities | 7,088 |
| Expenses relating short term, Low value and other lease payments | 2,200 |
| Sublease income | (6,036) |
| Total Amount recognised in the income statement | 37,632 |

The Company had total cash outflow of £43,311,000 in relation to leases in the current financial period. Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans borrowings) and the movements during the period:

| | |
|--|----------------|
| Lease liability Opening balance 1 Jan 2021 | 151,713 |
| Additions | 74,582 |
| Interest expense | 7,088 |
| Payments | (43,311) |
| Lease liability Closing balance 31 Dec 2021 | 190,072 |
| Current | 31,713 |
| Non-current | 158,359 |

Notes to the Financial Statements

18 OPERATING LEASES (continued)

Lessor accounting

Impairment of RoU assets under IAS 36 and Provisions for onerous leases IAS 37

Our existing lease portfolio consists of two major asset types namely Wagons (for the transport and haulage of containers and bulk materials) and Locomotives for the hauling of either Wagon (GBRf's wagons or customer owned) or other rolling stock at the request of customers.

With the forecasted & actual growth of GBRf and the increase in assets required to satisfy demand along with the continued acquisition through lease and purchase of assets it is not deemed that any of its leased assets require impairment or provision for onerous leases.

Lease liabilities

The Company has various lease contracts that will continue after 31 December 2021. The future lease payments for these non-cancellable lease contracts are £162,526,000 split as £34,700,000 within one year, £79,676,000 between two to five years and £48,150,000 over five years.

GBRf as a lessor

The Company has entered into property operating leases to support its rail freight logistics operations consisting of certain office and manufacturing buildings. These leases have terms of between five and 20 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties.

Rental income recognised by the Company during the year is £6,036,000

GBRf does have a small amount of rental income that relates to the sublease of land and building that have not been classified as finance subleases. Income from these agreements will continue to be accounted for on a straight-line basis.

| | 2021 £000 | 2020 £000 |
|---------------|--------------|--------------|
| Rental income | 6,036 | 5,945 |
| | 6,036 | 5,945 |

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

| | £000 |
|-----------------------------------|--------|
| Within one year | 6,036 |
| After one year but no more than 5 | 7,370 |
| More than 5 years | 259 |
| Total | 13,665 |

Notes to the Financial Statements

19 PENSION SCHEMES

Defined benefit scheme

The Company operates a defined benefit pension scheme for qualifying employees.

The Company operates a defined benefit pension scheme known as the GB Railfreight section of the Railways Pension Scheme (RPS or Scheme), along with other railway entities. Under the Scheme, the employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). The Section is open to future accrual of benefits and open to new members.

The RPS is a registered funded pension scheme. The assets of the Section are held separately from the assets of the Company in trustee administered funds.

The most recent triennial valuation of the Scheme was carried out at 31 December 2019. The Company has employed an independent actuary to approximately update the draft results from this valuation allowing for differences between the actuarial assumptions used by the Scheme for funding purposes and those adopted by the Company to measure the Scheme's liabilities on the financial statements, as well as adjusting for benefit accrual and benefits paid by the Section over the year to 31 December 2021.

Employer contributions for the period ending 31 December 2021 were 24.48% of Section Pay until 30 June 2024, after which the rate will revert to 60% of the long term joint contribution rate of 20.22%.

The present values of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

The Scheme is shared cost in nature, with costs shared by the employer (60%) and the employees (40%).

Any surplus or deficits in the scheme may affect the Company through periodic adjustments to the Company's contribution rate as determined by the actuary.

Notes to the Financial Statements

19 PENSION SCHEMES (continued)

Defined benefit scheme (continued)

| | 2021 | 2020 |
|---|----------|----------|
| | £000 | £000 |
| Present value of funded defined benefit obligations | 89,806 | 88,251 |
| Fair value of plan assets | (77,638) | (65,355) |
| Present value of unfunded defined benefit obligations | 12,168 | 22,896 |
| Adjustment for the members' share of deficit | (4,867) | (9,159) |
| Net deficit | 7,301 | 13,737 |
| Related deferred tax asset | (1,241) | (2,335) |
| Net liability | 6,060 | 11,402 |

(a) Movements in present value of defined benefit obligation

| | 2021 | 2020 |
|---|---------|---------|
| | £000 | £000 |
| At 1 January | 88,251 | 65,927 |
| Current service cost | 4,610 | 4,200 |
| Past service costs | - | 18 |
| Net interest cost | 1,257 | 1,376 |
| Remeasurement losses (gains) | | |
| Due to changes in experience | (755) | 4,266 |
| Due to changes in demographic assumptions | 630 | (2,693) |
| Due to changes in financial assumptions | (3,741) | 16,595 |
| Benefits paid | (1,554) | (1,438) |
| Transfers in | 1,108 | - |
| At 31 December | 89,806 | 88,251 |

Notes to the Financial Statements

19 PENSION SCHEMES (continued)

Defined benefit scheme (continued)

(b) Movements in fair value of plan assets

| | 2021 | 2020 |
|---------------------------|---------|---------|
| | £000 | £000 |
| At 1 January | 65,355 | 58,618 |
| Net interest cost | 920 | 1,240 |
| Return of plan assets | 9,513 | 4,657 |
| Contributions by employer | 2,505 | 2,151 |
| Contributions by members | 62 | 602 |
| Benefits paid | (1,554) | (1,438) |
| Administration costs | (271) | (475) |
| Transfers in | 1,108 | - |
| At 31 December | 77,638 | 65,355 |

(c) Amount recognised in the statement of profit or loss

| | 2021 | 2020 |
|---|-------|-------|
| | £000 | £000 |
| Employer's share of service cost | 2,766 | 2,520 |
| Employer's share of administration cost | 163 | 285 |
| Employer's share of past service cost | - | 11 |
| Employer's share of settlement | - | - |
| Employer's share of net interest on net defined benefit liability | 202 | 82 |
| Total | 3,131 | 2,898 |

| | 2021 | 2020 |
|-----------------------|-------|-------|
| | £000 | £000 |
| Operating costs | 2,929 | 2,816 |
| Finance charges (net) | 202 | 82 |
| | 3,131 | 2,898 |

Notes to the Financial Statements

19 PENSION SCHEMES (continued)

Defined benefit scheme (continued)

(d) Amount recognised in the other comprehensive income

The total amount recognised in the Other Comprehensive Income in respect of remeasurement gains is £8,027,000 (2020: £8,107,000 losses).

At 31 December 2021 cumulative remeasurement gains (losses) reported in the retained earnings since 31 December 2010 are £2,454,000 losses (2020: £5,573,000 gain).

(e) Fair value of plan assets

The fair value of the plan assets and the return on those assets were as follows:

| | 2021 £000 | 2020 £000 |
|------------------------------|---------------|---------------|
| Equities | 63,750 | 57,584 |
| Government debt | 9,765 | 4,101 |
| Corporate bonds | 3,644 | 3,053 |
| Other | 479 | 617 |
| | <u>77,638</u> | <u>65,355</u> |
| Actual return on plan assets | <u>9,513</u> | <u>4,657</u> |

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

(f) Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

| | 2021 % | 2020 % |
|--|-----------|-----------|
| Discount rate | 1.9 | 1.4 |
| Future salary increases | 2.5 | 1.9 |
| Increases to deferred pensions and pension increases | 2.8 | 2.4 |
| Price Inflation (CPI) | 2.8 | 2.4 |
| Price Inflation (RPI) | 3.3 | 2.9 |

In valuing the liabilities of the pension fund, mortality assumptions have been made as indicated below.

The directors have reviewed the methodology used to determine the principal actuarial assumptions for measuring its pension scheme liabilities. The same principles as those applied at 31 December 2019 had been applied to 31 December 2021 in arriving at the discount rate. (at 31 December 2019, the discount rate has been set by reference to bonds that are rated at AA by one or more of the three main rating agencies). The effect of this update has been to decrease the net defined benefit deficit (before the deferred tax related asset adjustment) described in note 11 by £6.4m (2020: increase £9.4m)

Notes to the Financial Statements

19 PENSION SCHEMES (continued)

Defined benefit scheme (continued)

(f) Actuarial assumptions (continued)

At 31 December 2019, the life expectancy assumption was derived from the assumption used in the actuarial valuation of the Section as at 31 December 2016 and using the latest available future improvements model with removal of any margin for prudence. For 31 December 2021, the life expectancy assumptions have been derived in a consistent manner by using the life expectancy assumption used in the draft results of the actuarial valuation of the Section as at 31 December 2019 and the latest available future improvements model, CMI_2020, with margins for prudence removed from the long-term improvement rate

A long-term rate of 1.25% p.a. for males and females has been adopted, consistent with prior year.

| Life expectancies | 31 December 2021 | 31 December 2020 |
|---|------------------|------------------|
| For average male member currently aged 65 | 20.9 | 20.7 |
| For average male member currently aged 45 at age 65 | 22.3 | 22.0 |
| For average female member currently aged 65 | 23.1 | 22.8 |
| For average female member currently aged 45 at age 65 | 24.47 | 24.4 |

(g) History of plans

The history of the plans is as follows:

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Present value of scheme liabilities | 89,806 | 88,251 |
| Fair value of scheme assets | (77,638) | (65,355) |
| Deficit | 12,168 | 22,896 |
| Adjustment for the members' share of deficit | (4,867) | (9,159) |
| Net deficit | 7,301 | 13,737 |

The Company expects to contribute approximately £1,544,000 to its defined benefit plans in the next financial year

The average duration of the defined benefit plan obligation at the end of the reporting period is 19.0 years (2020: 19.0 years) based on the results of the valuation as at 31 December 2019.

Notes to the Financial Statements

19 PENSION SCHEMES (continued)

Defined benefit scheme (continued)

(h) Sensitivity analysis

The calculation of the defined benefit obligation (DBO) is sensitive to the assumptions set out above. The following table summarises how the defined benefit obligation at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by one percent.

| | | Approximate change in DBO £000 |
|-------------------------------|-------------|--------------------------------------|
| | Sensitivity | |
| Discount rate | +1.0% p.a. | (2,004) |
| | -1.0% p.a. | 2,064 |
| Price inflation (CPI measure) | +1.0% p.a. | 1,602 |
| | -1.0% p.a. | (1,565) |
| Life expectancy | +1 year | 3,056 |
| | -1 year | (3,057) |

Defined contribution pension scheme

Additionally, the Company contributions to money purchase schemes during the year were £2,758,000 (2020: £2,587,000).

The total contributions payable as at 31 December 2021 was £223,000 (2020: £358,000).

20 FINANCIAL INSTRUMENTS

The Company has exposure to three main areas of risk – customer credit exposure, liquidity risk and foreign exchange currency exposure.

(a) Customer credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. This risk is mitigated by strong on-going customer relations and credit control. Maximum exposure can be seen from note 13.

Notes to the Financial Statements

20 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

The objective of the Company in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The Company expects to meet its financial obligations through operating cash flows. In the event that the operating cash flows would not cover all the financial obligations, the Company will obtain credit facilities from external sources.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments

| | Less than a year £000 | 1 to 5 years £000 | More than 5 years £000 | Total £000 |
|---|--------------------------|-------------------------|------------------------------|---------------|
| As at 31 December 2021 | | | | |
| Trade and other payables (excluding deferred income) | 37,675 | - | - | 37,675 |
| | 37,675 | - | - | 37,675 |
| As at 31 December 2020 | | | | |
| Interest-bearing loans and borrowings | 44,167 | 13,659 | 4,577 | 62,403 |
| Trade and other payables (excluding deferred income) | 35,370 | - | - | 35,370 |
| | 79,537 | 13,659 | 4,577 | 97,773 |

(c) Market Risk

Market risk is the risk that changes in market prices, which could impact the cost of fulfilling long term contracts that have pre set pricing, which do not impact inflationary or market pressures.

Market risk - Foreign currency risk

The Company is exposed to limited currency exchange risk due to a minimal proportion of its transactions being denominated in non-Sterling currencies. The Company's exposure to foreign currency risk is as follows:

| | Sterling £000 | US Dollar £000 | Euro £000 | Total £000 |
|-------------------------------|------------------|-------------------|--------------|---------------|
| As at 31 December 2021 | | | | |
| Cash and cash equivalents | 10,922 | - | 74 | 10,996 |
| Trade and other payables | 96,297 | 19 | 859 | 97,175 |
| Net liability position | (85,375) | (19) | (785) | (86,179) |
| As at 31 December 2020 | | | | |
| Cash and cash equivalents | 3,960 | - | 29 | 3,989 |
| Trade and other payables | 87,516 | 21 | 633 | 88,170 |
| Net liability position | (83,556) | (21) | (604) | (84,181) |

Notes to the Financial Statements

20 FINANCIAL INSTRUMENTS (continued)

(c) Market Risk (continued)

Sensitivity analysis

A 10% percent weakening of the following currencies against the pound sterling at 31 December 2021 would have decreased equity and profit or loss by the amounts shown below. This calculation assumes that the charge occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

| | 2021 | | 2020 | |
|-----------|--------|------|--------|------|
| | Equity | P&L | Equity | P&L |
| | £000 | £000 | £000 | £000 |
| Euro | 86 | 86 | 68 | 68 |
| US Dollar | 2 | 2 | 2 | 2 |

(d) Fair value

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables approximate their carrying amount largely due to the short-term maturities of these instruments.

Finance lease liabilities are discounted from the gross carrying value using the interest rate implicit in the lease.

21 CAPITAL COMMITMENTS

The Company had a capital commitment amounting to £13.14m as at 31 December 2021 (2020: £3,500,000) in relation to the build of 70 FEA wagons

22 SUBSEQUENT EVENTS

Since the balance sheet date GB Railfreight, Stadler and Beacon Rail have signed an agreement for the supply of 30 Class 99 bi-mode locomotives. The Class 99 is a versatile locomotive, adapted to the British gauge and specifications, combining 25 kV AC electric and diesel operating modes. It represents a new generation of locomotives that offers GB Railfreight many economic and environmental benefits and underscores its green credentials.

On 27th June 2022 a further £7.5m intercompany loan was utilised under the groups refinancing facility. The company has assessed the impact of the Russian/ Ukrainian conflict on the business and has assessed two potential risks, both of which are mitigated:

- **Fuel price increase** – The conflict, as well publicised, has pushed up the cost of diesel. Although a large portion of our contracts have fuel escalators built in there is a time lag between increase in price and recouping the difference. We have no concerns of assurance of supply.
- **Build of assets.** We currently have orders placed for the build of wagons to supplement and increase our fleet size to support the forecast and business plan. These wagons are / will be built in Poland and assurances have been given that existing orders will be honoured and delivered as planned. Although a portion of the materials and workforce are sourced from Ukraine with some of the latter returning home to fight in the war, the manufacturer holds enough raw materials and sufficient workforce to ensure production is uninterrupted. The delivery of GBRf's assets will be sourced from this stock of materials.

Notes to the Financial Statements

23 ULTIMATE HOLDING AND IMMEDIATE HOLDING COMPANY

The immediate holding company is Hector Rail Holding UK Ltd, which is registered and incorporated in the UK. The address of the registered office is 55 Old Broad Street, London EC2M 1RX. The ultimate parent company is Greenhouse HoldCo Limited and controlling parties are (i) Infracapital Partners III Subholdings (Euro) LP and (ii) Infracapital Partners III Subholdings (Sterling) LP.

24 RELATED PARTIES TRANSACTIONS

As at 31 December 2021 the Company is a wholly owned subsidiary of Hector Rail Holding UK Limited which is an indirect subsidiary of Greenhouse Bidco Limited. Transactions entered into during the year and trading balances outstanding at 31 December 2021 are as follows:

| Related Parties | | Year | Management fee and purchase from related parties £000 | Amounts payable to related parties £000 |
|---|-----------------------------|------|---|---|
| (Relationship between companies) | | | | |
| Greenhouse BidCo | Entity under common control | 2021 | 100 | - |
| | | 2020 | 94 | 94 |

| Related Parties | | Year | Interest Expense £000 | Interest owed £000 | Amounts owed to related party £000 |
|------------------------------------|-----------------------------------|------|-----------------------|--------------------|------------------------------------|
| Loans from related parties: | | | | | |
| Hector Rail Holding UK | Current immediate holding company | 2021 | 58 | 127 | 1,651 |
| | | 2020 | 58 | 69 | 1,651 |
| Deltic Top Invest | Entity under common control | 2021 | 26 | 57 | 750 |
| | | 2020 | 26 | 31 | 750 |
| Greenhouse BidCo | Entity under common control | 2021 | 58 | 58 | 55,973 |
| | | 2020 | - | - | - |

Notes to the Financial Statements

24 RELATED PARTIES TRANSACTIONS (continued)

There is no provision for doubtful debts against any intercompany debts and no bad debts have been written off during the year.

Terms and conditions – Sales and purchases between related parties are on an 'arm's length' basis. Outstanding balances with entities other than subsidiaries are unsecured, interest free and settlement is expected within 60 days.

25 CAPITAL MANAGEMENT

For the purpose of the Company's capital management, capital includes issued capital, retained earnings and all other equity reserves attributable to the equity holders. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, bank overdrafts, less cash and short-term deposits.

In order to achieve this overall objective, the Company's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank and lessor to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current year and prior year.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.
