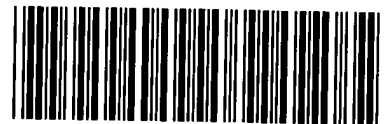


Registered number 10752611

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

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ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

COMPANY INFORMATION

Directors

A N Chivers
M Tarasiuk
M R Swindell
R McDonald (appointed 22 January 2019)
N Ritter (resigned 22 January 2019)
G K W Dunbar (appointed 22 January 2019)

Group secretary

J C Shepherd

Registered number

10752611

Registered office

Capital Tower
91 Waterloo Road
London
SE1 8RT

Independent Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Solicitor

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Banker

Lloyds Bank plc
10 Gresham Street
London
EC2V 7AE

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Review of the business

The sole activity of Rock Rail South Western (Holdings) 2 Limited (the “Company”) is as a holding company for its subsidiary, Rock Rail South Western plc (collectively the “Group”) which is engaged in the funding, ownership and future leasing of a fleet of state of the art Aventra trains manufactured by Bombardier Transportation.

On 19 June 2017, the Group entered into a manufacturing and supply agreement and loan documentation to fund the construction and delivery of the new trains and, when accepted in accordance with the documentation, to lease these trains to First Group and MTR to run on the South Western Route. First Group and MTR are responsible for the maintenance of the trains.

During the year manufacturing and supply agreement underwent a variation and a new scheduled delivery programme is due to commence in 2020. Due to delays to the original delivery schedule of the new trains, the Group receives liquidated damages income from Bombardier Transportation.

Financial performance and position of the business

The Group made a profit before tax of £3,630k (2018: loss of £1,360k) for the year ended 31 December 2019, despite no lease revenue generated whilst the project is still in the construction phase. Profit was generated owing to liquidated damages income payable from the manufacturer as a result of delays to the original schedule of delivery of the new trains.

The Group’s position remains consistent in all material respects with the financial forecasts prepared at the time of financial close in June 2017 and the variation in September 2019.

Future developments

The Group is currently focussed on meeting its obligations under its contracts and monitoring the performance of Bombardier Transportation as it continues to manufacture the trains. This activity will increase throughout 2020.

Key performance indicators (“KPI’s”)

The main KPI is performance against operating budget. Currently the business is in its pre delivery phase as discussed above with costs incurred in line with the operating budget.

Principal risks and uncertainties

The principal current risk of the business is the potential loss of rental income arising from a delay in acceptance of the trains. The timely delivery of the trains is the responsibility of the manufacturer and contractual provisions are in place to protect the Group in the event of a late delivery. Rock Rail South Western Management Limited monitors the manufacturers’ performance on behalf of the Group against agreed milestones and, with Group approval, agrees any remedial action required to ensure that the delivery of the trains is in line with contractual commitments.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Principal risks and uncertainties (continued)

Upon leasing of the trains, the main risk for the business during the initial franchise period will relate to the credit of the counterparty as lease rentals are fixed. On franchise renewal, the market rental rates prevailing at that time which will influence the rental that the business can charge.

Covid-19

The Directors are considering the effects of Covid-19. The project is currently estimating a delay to the commencement of acceptance of the trains. During this period liquidated damages are receivable from Bombardier Transportation to cover loss of rental income. In the event of a Force Majeure claim from Bombardier Transportation any short term cash shortfall would be covered by the liquidity reserve that is funded as part of the transaction. Debt drawdowns continue throughout the project as committed at the date of financial close.

Financial risk management

The obligation to fund the purchase of the trains has been fully met through fixed rate loans, some of which have been drawn down in line with the terms of its agreements, the balance of which are contractually committed by the lenders. Cashflow is carefully monitored against the operating budget and the available financing.

Going concern

The Consolidated Statement of Comprehensive Income shows a profit for the year of £3,023k (2018: loss of £1,133k) and the Consolidated Statement of Financial Position at 31 December 2019 reports net assets of £1,371k (2018: liabilities of £1,652k). The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and is considered in more details in note 1.3 of the accounts.

This report was approved by the board and signed on its behalf.



R McDonald
Director

Date: 2019/20

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

GROUP DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their report and the financial statements for the year ended 31 December 2019.

Directors

The Directors of the Company at 31 December 2019 and subsequent to the year end are listed on page 2.

Dividend

The Directors do not recommend the payment of a dividend (2018: £nil).

Political contributions

The Group made no political or charitable donations during the year (2018: £nil).

Matters covered in the Strategic Report

A review of the business and principal risks and uncertainties are not shown in the Directors' Report as this information is included within the Strategic Report under s.414c(11) of the Companies Act 2006.

Disclosure of information to the auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- The Director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board and signed on its behalf.



R McDonald
Director

Date:

20/5/20

Capital Tower
91 Waterloo Road
London
SE1 8RT

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

1 Our opinion is unmodified

We have audited the financial statements of Rock Rail South Western (Holdings) 2 Limited ("the Company") for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group and the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- the financial statements 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. No non-audit services prohibited by that standard were provided.

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2018).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED (CONTINUED)

	The risk	Our response
Tangible fixed assets	Accounting application	Our procedures included:
(£219 million; 2018: £169 million)	Although we do not consider tangible fixed assets to be an area with a high risk of significant misstatement, or requiring a significant level of judgement, it is considered to be one of the key drivers of financial position and as such had the greatest effect on our audit and allocation of resources in the planning and completing our audit	Tests of Details: Selecting a sample of capitalised costs and agreeing these to supporting documentation, assessing whether they have been appropriately capitalised. Additionally, we selected a sample of costs which were not capitalised and agreed these to supporting documentation, assessing whether they should have been capitalised.
Refer to page 20 (accounting policy) and page 25 (financial disclosures).	Significant costs are capitalised in relation to the construction of rolling stock. The capitalisation of these costs require judgement from the Directors as to what can be capitalised under FRS102.	
Loan facilities and loan notes	Accounting treatment	Our procedures included:
(£595 million; 2018: £258 million)	Although we do not consider loan facilities or loan notes to be an area with a high risk of significant misstatement, or requiring a significant level of judgement, it is considered to be one of the key drivers of financial position and as such had the greatest effect on our audit and allocation of resources in the planning and completing our audit.	Accounting analysis: We evaluated the Directors' choice of accounting policy by comparing this with the requirements of FRS102.
Refer to page 21 (accounting policy) and page 27 and 28 (financial disclosures).	The Directors must treat the loans and loan notes correctly as required under FRS102.	Reperformance: We recalculated the effective interest rate calculation based on the interest rates and other terms included in loan agreements (which were agreed back to source documentation) for each of the loans to assess whether the Directors' calculation was materially misstated.
	Calculation error	
	The measurement of the loan at amortised cost requires the Directors to use the effective interest rate method which is a complex calculation.	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED (CONTINUED)

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £5.9m (2018: £1.28m), determined with reference to a benchmark of group total assets, of which it represents 1% (2018: 0.5%). We consider total assets to be the most appropriate benchmark as the Group is still in the construction phase of the project and is not yet generating revenue.

Materiality for the parent Company financial statements as a whole was set at £1.35m (2018: £0.64m), determined with reference to a benchmark of company total assets, of which it represents 1% (2018: 0.5%).

We agreed to report to the board any corrected or uncorrected identified misstatements exceeding £0.29m (2018: £0.06m) in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected the Group's only subsidiary to a full scope audit for group reporting purposes in both 2019 and 2018.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The global and regional economic impact of coronavirus
- The impact of a disorderly Brexit

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED (CONTINUED)

4 We have nothing to report on going concern (continued)

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED (CONTINUED)

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.


Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8 The purpose of our audit work and to whom we owe our responsibilities

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.



Mark Smith (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Date: 22 May 2020

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

		Year Ended 31 December 2019	Year Ended 31 December 2018
	Notes	£'000	£'000
Other operating income	2	4,028	-
Operating expenses	5	(1,464)	(1,427)
Operating profit/(loss)		2,564	(1,427)
Interest receivable and similar income		1,066	67
Profit/(loss) on ordinary activities before taxation		3,630	(1,360)
Tax on (profit)/loss	6	(607)	227
Profit/(loss) for the year		3,023	(1,133)
Total comprehensive income/(deficit) for the year		3,023	(1,133)

The result for the financial year has been derived from continuing activities.

There were no recognised gains or losses during the year other than as recorded in the Statement of Comprehensive Income.

The notes on pages 18 to 31 form an integral part of these financial statements.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Notes	31 December 2019 £'000	31 December 2018 £'000
Fixed Assets			
Tangible fixed assets	7	219,114	169,321
		<u>219,114</u>	<u>169,321</u>
Current assets			
Debtors: including £11k (2018: £9k) due after more than one year	9	2,012	433
Cash at bank and in hand		375,513	86,848
		<u>377,525</u>	<u>87,281</u>
Creditors: amounts falling due within one year	10	(2,614)	(128)
Net current assets		<u>374,911</u>	<u>87,153</u>
Total assets less current liabilities		<u>594,025</u>	<u>256,474</u>
Creditors: amounts falling due after more than one year	11	(592,654)	(258,126)
Net assets/(liabilities)		<u>1,371</u>	<u>(1,652)</u>
Capital and reserves			
Called up share capital	17	50	50
Retained earnings/(deficit)		1,321	(1,702)
Shareholders' earnings/(deficit)		<u>1,371</u>	<u>(1,652)</u>

The notes on pages 18 to 31 form an integral part of the financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

R McDonald
Director

R McDonald

Date:

20/5/20

Registered number: 10752611

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		31 December 2019 £'000	31 December 2018 £'000
	Notes		
Fixed Assets			
Investments	8	50	50
		50	50
Current assets			
Debtors: including £132,536k (2018: £128,327k) due after more than one year	9	135,005	128,327
Cash at bank and in hand		-	-
		135,005	128,327
Creditors: amounts falling due within one year	10	(2,463)	-
Net current assets		132,542	128,327
Total assets less current liabilities		132,592	128,377
Creditors: amounts falling due after more than one year	11	(132,627)	(128,392)
Net liabilities		(35)	(15)
Capital and reserves			
Called up share capital	17	50	50
Retained earnings		(85)	(65)
Shareholders' deficit		(35)	(15)

The notes on pages 18 to 31 form an integral part of the financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:



R McDonald
Director

Date: 20/5/20

Registered number: 10752611

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balances at 1 January 2019	50	(1,702)	(1,652)
Profit and total comprehensive income for the year	-	3,023	3,023
Balances at 31 December 2019	50	1,321	1,371

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balances at 1 January 2018	50	(569)	(519)
Loss and total comprehensive deficit for the year	-	(1,133)	(1,133)
Balances at 31 December 2018	50	(1,702)	(1,652)

The notes on pages 18 to 31 form an integral part of the financial statements.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balances at 1 January 2019	50	(65)	(15)
Loss and total comprehensive deficit for the year	-	(20)	(20)
Balances at 31 December 2019	50	(85)	(35)

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balances at 1 January 2018	50	(40)	10
Loss and total comprehensive deficit for the year	-	(25)	(25)
Balances at 31 December 2018	50	(65)	(15)

The notes on pages 18 to 31 form an integral part of the financial statements.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

		Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
	Notes		
Cash flows from operating activities			
Profit/(loss) on ordinary activities after taxation		3,023	(1,133)
Adjustments for:			
Interest receivable and similar income		(1,066)	(67)
Taxation charge/(credit)		607	(227)
Increase in debtors		(1,908)	(3)
Increase in amounts owed by parent company		(2)	(5)
Increase in creditors		2,608	23
Net cash inflow/(outflow) from operating activities		3,262	(1,412)
Cash flows from investing activities			
Purchase of tangible fixed assets	7	(49,793)	(10,189)
Interest received		1,066	67
Net cash flows used in investing activities		(48,727)	(10,122)
Cash flows from financing activities			
Proceeds from issue of long-term senior debt		329,920	75,654
Proceeds from loan from shareholders		4,210	4,132
Net cash flow generated by financing activities		334,130	79,786
Increase in cash and cash equivalents in the year		288,665	68,252
Cash and cash equivalents at the beginning of the year		86,848	18,596
Cash and cash equivalents at the end of the year		375,513	86,848

The notes on pages 18 to 31 form an integral part of the financial statements.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies

1.1 General information and basis of preparation

Rock Rail South Western (Holdings) 2 Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered office of the Company is given in the company information page of these financial statements.

These financial statements are the consolidated financial statements of Rock Rail South Western (Holdings) 2 Limited (the "Company") and its subsidiary Rock Rail South Western plc (collectively known as the "Group") for the year end 31 December 2019.

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102 (FRS102), the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The principal activity of the Company is that of a holding company for its subsidiary. The presentation and functional currency of these financial statements is sterling and are rounded to the nearest £'000.

Rock Rail South Western (Holdings) 2 Limited meets the definition of a qualifying entity under FRS 102, paragraph 1.8 – 1.12 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements.

The following exemptions have been applied:

- reconciliation of the number of shares outstanding from the beginning to end of the year;
- no separate parent Company Cash Flow Statement with related notes is included; and
- key management personnel compensation.

The following principal accounting policies have been applied:

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertaking made up to 31 December 2019. A subsidiary is an entity that is controlled by the parent. The results of the subsidiary undertaking is included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Statement of Comprehensive Income.

In the Company financial statements, investments in subsidiaries, are carried at cost less impairment.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.3 Going concern

The financial statements have been prepared on the going concern basis which the Directors consider appropriate for the reasons outlined below and where they have reviewed cash flow forecasts for a period of 12 months from that date of signing of these financial statements. The Group has made a profit for the year of £3,023k (2018: loss of £1,133k) and has net assets of £1,371k (2018: net liabilities of £1,652k). The Directors have reviewed the Group's operations and made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources available to continue in operation for the foreseeable future and at least 12 months from the date of approval of these financial statements.

In preparing these forecasts, the impact of COVID 19 has been considered. Covid-19 has delayed the manufacturer's construction programme whilst social distancing measures were implemented at the manufacturer's site. Manufacturing of the units has now recommenced. If the manufacturer successfully makes a claim for contractual relief for Covid-19, the manufacturer would be relieved of its liability for liquidated damages as a result of the delay caused by Covid-19.

The Directors considered the uncertainty of Covid-19 and the impact of a potential successful claim from the manufacturer for Covid-19 related relief on short and medium term cash liquidity. Appropriate enquiries with management and modelling a reasonable plausible downside scenario was made to conclude the Group has sufficient liquidity to cover short and medium term cash shortfalls in the event of successful claim. Cash balances held include a liquidity reserve which is in place for these type of events. In addition, debt drawdowns continue throughout the project as committed at the date of financial close. Once a train has been accepted by the operator, rental receipts are on a 'hell or high water' basis (i.e. the operator's obligation to pay rent under the lease is not dependent on whether the trains are used or passenger demand), and an economic downturn has no effect on contracted rentals. In the event of an operator failure, the Department for Transport is expected to step in as the operator of last resort to fulfil its statutory duties to provide rail services and would take responsibility for contractual lease payments.

Under both its base-case scenario and reasonably plausible downside scenarios, the Directors consider that the Group is well positioned to manage risk during this period of economic uncertainty and is able to realise its assets and discharge its liabilities and commitments in the normal course of business. The Directors conclude that the cash reserves in place gives them confidence that the going concern basis remains appropriate.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.4 Interest receivable and payable

Interest payable relates to interest due on loans from shareholders and on senior debt borrowed to finance the manufacturing of the trains. Interest receivable and similar income include interest receivable on loans to group undertakings.

Interest income and interest payable are recognised in the Statement of Comprehensive Income as they accrue, using the effective interest method.

1.5 Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which take substantial time to become ready for their use or sale, are capitalised as part of those assets. All other borrowing costs are expensed.

1.6 Tangible fixed assets

Assets in the course of construction are carried at cost, less any recognised impairment loss. Costs capitalised include invoices from Bombardier Transportation Limited relating to construction of the assets, professional fees and borrowing costs capitalised in line with the accounting policy outlined above. Depreciation of these assets commences when the assets are ready for use.

1.7 Impairment of property, plant and equipment and operating lease assets

At each balance sheet date, or more frequently when events or changes in circumstances dictate, property, plant and equipment and operating lease assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price, if available, is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of assets are written down by the amount of any impairment and the loss is recognised in the Statement of Comprehensive Income in the year in which it occurs. A previously recognised impairment loss relating to an asset may be reversed in part or full when a change in circumstances leads to a change in the estimates used to determine the asset's recoverable amount.

The carrying amount of the asset will only be increased up to the amount that would have been had the original impairment not been recognised. For conducting impairment reviews, cash generating units are the lowest level at which management monitors the return on investment on assets.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.7 Impairment of property, plant and equipment and operating lease assets (continued)

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

1.8 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangements constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Interest bearing borrowings classified as basic financial instruments

Interest bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.9 Taxation

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

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, and any adjustment to tax payable in respect of previous years.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.9 Taxation (continued)

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowed for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.10 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle this obligation, taking into account relevant risks and uncertainties.

2. Other operating income

	Year Ended 31 December 2019	Year Ended 31 December 2018
Other operating income	4,028	-

Other operating income represents the liquidated damages received during the year for late delivery of rolling stock under the Group's contract with its supplier. Liquidated damages are recognised when the manufacturer misses the scheduled delivery date.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

3. Employees

During the year the Group had no employees other than the Directors (2018: none).

4. Directors' remuneration

The remuneration received by the Directors during the year in relation to the services that the Directors provide was not material.

5. Auditor's remuneration

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Audit of these financial statements	15	14
Audit of financial statements of subsidiaries of the Company	9	8

6. Taxation

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Total current tax	(5)	-
Deferred tax		
Origination and reversal of timing differences	695	(254)
Adjustments from previous periods	(10)	-
Tax rate changes	(73)	27
Total deferred tax	612	(227)
Taxation on profit/(loss) on ordinary activities	607	(227)

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

6. Taxation (continued)

Factors affecting tax charge/(credit) for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit/(loss) on ordinary activities before tax	3,630	(1,360)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	690	(259)
Effects of:		
Deferred tax not recognised	-	5
Adjustments from previous periods	(10)	-
Reduction in tax rate on deferred tax balances	(73)	27
Total tax charge/(credit) for the year	607	(227)

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability at 31 December 2019 has been calculated based on these rates substantively enacted at the Statement of Financial Position date.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

7. Tangible fixed assets

Group

	Assets under construction £'000
Cost	
At 1 January 2019	169,321
Additions	49,793
At 31 December 2019	<u>219,114</u>
Carrying amount	
At 31 December 2019	<u>219,114</u>
At 31 December 2018	<u>169,321</u>

Assets under construction consist of construction progress payments provided to manufacturers for trains which will be leased to First Group and MTR on completion under an operating lease.

During the year £15,387k (2018: £8,732k) of interest on the senior debt and debt from shareholders was capitalised into the asset under construction.

8. Fixed asset investment

Company

	Investments in subsidiary undertaking £'000
Cost	
At 1 January 2019 and 31 December 2019	<u>50</u>
Net book value	
At 31 December 2019 and 31 December 2018	<u>50</u>

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

8. Fixed asset investment (continued)

Subsidiary undertaking

The following was a subsidiary undertaking of the Company:

Name	Country of incorporation	Nature of business	Class of shares	Holding
Rock Rail South Western plc	England and Wales	Rolling stock lessor	Ordinary	100%

The registered office of Rock Rail South Western plc is Capital Tower, 91 Waterloo Road, London, SE1 8RT.

9. Debtors

	Group 31 December 2019 £000	Group 31 December 2018 £000	Company 31 December 2019 £000	Company 31 December 2018 £000
Due after more than one year				
Amounts owed by group undertaking	-	-	132,536	128,327
Amounts owed by parent company	11	9	-	-
Due within one year				
Trade debtors	1,747	-	-	-
Other debtors	46	47	-	-
Prepayment and accrued income	203	41	-	-
Accrued interest on amounts due from group undertakings	-	-	2,464	-
Current tax asset	5	-	5	-
Deferred taxation (see note 16)	-	336	-	-
Total	2,012	433	135,005	128,327

	Nominal interest rate	Year of maturity	Repayment schedule	31 December 2019 £000	31 December 2018 £000
Loan notes in Rock Rail South Western plc	2% rising to 7%	2035	23 instalments commencing March 2024	132,536	128,327

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

10. Creditors: amounts falling due within one year

	Group 31 December 2019 £000	Group 31 December 2018 £000	Company 31 December 2019 £000	Company 31 December 2018 £000
Trade creditors	7	32	-	-
Accruals and deferred income	2,607	96	2,463	-
	<u>2,614</u>	<u>128</u>	<u>2,463</u>	<u>-</u>

11. Creditors: amounts falling due after more than one year

	Group 31 December 2019 £000	Group 31 December 2018 £000	Company 31 December 2019 £000	Company 31 December 2018 £000
Senior debt	459,718	129,798	-	-
Other long term creditors	122	-	-	-
Deferred tax liability (see note 16)	276	-	-	-
Shareholder loan notes	132,538	128,328	132,538	128,328
Amounts owed to group undertaking	-	-	89	64
	<u>592,654</u>	<u>258,126</u>	<u>132,627</u>	<u>128,392</u>

Amounts owed to group undertaking are subject to a rate of interest at 6% per annum.

12. Interest bearing loans and borrowings

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

	Nominal interest rate	Year of maturity	Repayment schedule	2019 £'000	2018 £'000
Senior debt	3.94%	2047	54 instalments commencing March 2021	459,718	129,798
Shareholder loan notes	2% rising to 7%	2035	23 instalments commencing March 2024	132,538	128,328

The senior debt is secured by a fixed and floating charge over the assets of Rock Rail South Western (Holdings) 2 Limited.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

12. Interest bearing loans and borrowings (continued)

The maturity profile of the carrying amount of non-current interest bearing loans and borrowings at 31 December 2019 was as follows:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
In more than one year and less than two	6,161	-	-	-
In more than two years and less than five	21,066	20,503	807	-
In more than five years	565,029	237,623	131,731	128,328
	592,256	258,126	132,538	128,328

13. Analysis of changes in net debt

Group

	1 January 2019 £'000	Cash flow £'000	31 December 2019 £'000
Cash and cash equivalents			
Cash	86,848	288,665	375,513
	86,848	288,665	375,513
Interest bearing loans and borrowings			
Due within one year	-	-	-
Due after one year	(258,126)	(334,130)	(592,256)
	(258,126)	(334,130)	(592,256)
Total net debt	(171,278)	(45,465)	(216,743)

14. Operating lease - lessor

Rolling stock assets are let under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	Group 2019 £'000	Group 2018 £'000
Less than one year	9,439	2,795
Between one and five years	180,456	184,425
More than five years	-	32,138
	189,895	219,358

During the year no operating lease rentals (2018: £nil) was recognised as income by the Group. Current lease matures in August 2024 and has option to extend for a maximum of 11 railway periods.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

15. Financial instruments

	Group 31 December 2019 £000	Group 31 December 2018 £000	Company 31 December 2019 £000	Company 31 December 2018 £000
Financial assets				
Amounts owed by group undertaking	-	-	132,536	128,327
Amounts owed by parent company	11	9	-	-
Trade debtors	1,747	-	-	-
Other debtors	46	47	-	-
Interest on amounts due from group undertakings	-	-	2,464	-
Accrued interest income	163	6	-	-
Cash at bank	375,513	86,848	-	-
Assets measured at amortised cost	377,480	86,910	135,000	128,327
Financial liabilities				
Trade creditors	7	32	-	-
Accruals	2,607	96	-	-
Other long term creditors	122	-	-	-
Senior debt	459,718	129,798	-	-
Shareholder loan notes	132,538	128,328	132,538	128,328
Amounts owed to group undertaking	-	-	89	64
Liabilities measured at amortised cost	594,992	258,254	132,627	128,392

Liquidity risk

The Group manages its liquidity risk by monitoring detailed cash flow forecasts which highlight liquidity issues to ensure funds are available when required.

Interest rate risk

The Group utilises a mixture of fixed senior debt and shareholder debt financing to mitigate its exposure to interest rate risk.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

16. Deferred tax (liability)/asset

Group

	31 December 2019 £'000	31 December 2018 £'000
At 1 January 2019	336	109
(Charged)/credited to profit and loss	(622)	227
Adjustments from previous periods	10	-
At 31 December 2019	(276)	336

The deferred tax (liability)/asset is made up as follows:

	31 December 2019 £'000	31 December 2018 £'000
Accelerated capital allowances	(4,580)	(1,393)
Tax losses carried forward	4,304	1,729
Balance at the end of year	(276)	336

17. Share capital

	31 December 2019 £'000	31 December 2018 £'000
Shares classified as equity		
Allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	50	50

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

18. Reserves

Profit and loss account

The reserve represents cumulative profits and losses of the Group.

ROCK RAIL SOUTH WESTERN (HOLDINGS) 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

19. Financial commitments

The Group is committed to the purchase of new rolling stock to be leased to First Group and MTR. Amounts contracted for but not yet provided for in the financial statements amounted to £721.8m (2018: £736.1m). This will be funded by committed but undrawn amounts of senior debt notes.

20. Related party transactions

The Group has taken advantage of exemptions conferred by FRS 102 from the requirement to make disclosures concerning 100% owned group undertakings in connection with group transactions.

During the year to 31 December 2019, the Group incurred charges for management services of £895k (2018: £869k) payable to Rock Rail Management Services Limited, a shareholder of Rock Rail South Western (Holdings) 1 Limited, the ultimate holding company of Rock Rail South Western plc. The payments are made on arm's length terms under a contract between Rock Rail South Western plc and Rock Management Services Limited. At the year end, there were no amounts due to Rock Rail Management Services Limited.

21. Subsequent events

There have been no material events or circumstances that have occurred after the balance sheet date, but prior to the signing of the financial statements that require disclosure or adjustment to balances and transactions that existed at the balance sheet date.

The Directors are considering the effects of Covid-19. The project is currently estimating a delay to the commencement of acceptance of the trains. During this period liquidated damages are receivable from Bombardier Transportation to cover loss of rental income. In the event of a Force Majeure claim from Bombardier Transportation any short term cash shortfall would be covered by the liquidity reserve that is funded as part of the transaction. Debt drawdowns continue throughout the project as committed at the date of financial close.

22. Ultimate controlling party

The Company is a subsidiary of Rock Rail South Western (Holdings) 1 Limited which is a subsidiary of Guillemot Investments LLP. Guillemot Investments LLP is a joint venture between SL Capital Infrastructure I LP, SLCI Rail Co-Invest LP and GLIL Infrastructure LLP. The ultimate controlling party as at 31 December 2019 was Standard Life Aberdeen plc, by virtue of its shareholding in the general partners of SL Capital Infrastructure I LP and SLCI Rail Co-Invest LP.