

Eversholt Funding plc

Annual report and financial statements for the year ended 31 December 2017

Registered No: 07329930

Annual report and financial statements

for the year ended 31 December 2017

Contents	Page
Strategic report	2
Directors' report	3
Statement of Directors' responsibilities	5
Independent Auditor's report	6
Income statement	12
Statement of comprehensive income	12
Statement of financial position	13
Statement of cash flows	14
Statement of changes in equity	15
Notes to the annual financial statements	16

Strategic report

for the year ended 31 December 2017

Business review

Eversholt Funding plc (the "Company") was established for the sole purpose of raising debt finance for the Eversholt UK Rails Group ("the Group"). The Company forms part of the Group more fully described in note 19.

In the year the Company generated a profit of £11,658,000 (2016: loss of £39,812,000). As at 31 December 2017 the Company had net liabilities of £143,684,000 (2016: £154,426,000). As described in Going concern note 2.3, the Directors are satisfied that the Company, through the support of the Group, has the resources to continue in business for the foreseeable future.

On 21 April 2017 the Company, as planned, drew down the final £100,000,000 on its 2016 US Private Placement. The Company also raised new finance of £400,000,000 through a public bond issue. The funds were drawn on 7 August 2017 at a fixed interest rate of 3.529% and a final maturity of 2042 (25 year bond amortising from 2034). The proceeds from the new financing have been loaned to fellow Group companies and will be used to fund the acquisition of new rolling stock.

The Company has no employees.

Risk management

The Company is subject to the risk management objectives and policies of the Group. An analysis of the exposure to such risks, are set out in note 17 of the financial statements.

The principal business risks for the Company are market, liquidity and credit risk. The market risk arises from refinancing risk and exposure to interest rate fluctuations on the value of and cash flows attributable to borrowings and deposits. Refinancing risk is managed by established procedures for monitoring concentration of maturities and early negotiation of financing arrangements. The interest rate cash flow risk is managed by means of interest rate swaps which have fixed the rate of interest payable on the floating rate debt.

Liquidity risk arises from the Company's obligation to make interest and principal repayments on its debt and derivative contracts. The day to day cash flow requirements of the Group are closely monitored.

Credit risk arises from placing cash deposits and entering into derivative contracts with third parties and committed undrawn borrowings. Credit risk is managed in line with established procedures which consider credit quality of counterparties and concentration of risk.

Performance

The Company's results for the year are as detailed in the Income statement on page 12.

The Group manages its operations on a consolidated basis, therefore the Company's directors believe that further specific performance measures for the company are not necessary or appropriate for an understanding of its performance. Performance measures for the Group are disclosed in the accounts of Eversholt UK Rails Limited.

Signed on behalf of the Board by:



M B Kenny
Director

Registered Office:
210 Pentonville Road
London
N1 9JY
United Kingdom
29 March 2018

Directors' report

for the year ended 31 December 2017

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2017.

Directors

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

M B Kenny
A J Course
A J Wesson
LDC Securitisation Director No 3 Limited

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

Future developments

No significant developments are currently anticipated, but the Directors keep opportunities under regular review.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017 (2016: £nil).

Going concern basis

The financial statements are prepared on the going concern basis as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including the financial support that the ultimate parent company has committed to provide. The Directors considered assessment of the Company's key financial ratios, including these attached to debt covenants; no financial covenants are projected to be in breach.

Disclosure of information to the auditor

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

Directors' report (continued)
for the year ended 31 December 2017

Auditor

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

Approved by the Board and signed on its behalf by:

A handwritten signature in dark ink, appearing to be 'M B Kenny', written over a horizontal line.

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

29 March 2018

Statement of Directors' responsibilities

for the year ended 31 December 2017

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

The Company's annual financial statements were approved by the Board of Directors on 29 March 2018 and signed on their behalf by:



M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

Independent Auditor's report to the Members of Eversholt Funding plc
for the year ended 31 December 2017

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Eversholt Funding plc (the 'Company') which comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of cash flows
- the Statement of changes in equity; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was: the accuracy of recycling cash flow hedge reserve transactions within derivative financial instruments and valuation of embedded derivatives.
Materiality	The materiality that we used in the current year was £2.8m which was determined on the basis of 2% of equity.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Independent Auditor's report to the Members of Eversholt Funding plc (continued)
for the year ended 31 December 2017

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

Accuracy of recycling cash flow hedge reserve transactions within derivative financial instruments and valuation of embedded derivatives

Key audit matter description





At 31 December 2017, the Company has derivative financial assets of £6 million and derivative financial liabilities of £151 million. In particular, the Company has entered into a number of highly effective interest rate swap contracts to hedge the cash flow risk inherent in its forecast future fixed rate interest payments. These contracts qualify for hedge accounting and at 31 December 2017, their fair value was a liability of £24 million.

In accordance with IAS 39 "Financial instruments: recognition and measurement", these financial instruments are accounted for at fair value through Other Comprehensive Income or Profit and Loss as appropriate. In determining the fair value of these instruments, management have used contractual cash flows attached to the instrument and an independently sourced yield curve for the reporting date. Qualification for hedge accounting also requires the documentation for these instruments to meet specific conditions.

The recycling of the cash flow hedge reserves requires complex judgements and it is also a particularly technical area of accounting. Additionally, identifying, valuing and accounting for embedded derivatives on new contracts is also a complex process. Hence we have also identified these as a potential fraud risk area.

Further details including the use of assumptions and estimates are disclosed in note 3. Derivative financial instruments including the disclosure of recycling of cash reserves is included note 12.

Independent Auditor's report to the Members of Eversholt Funding plc (continued)
for the year ended 31 December 2017

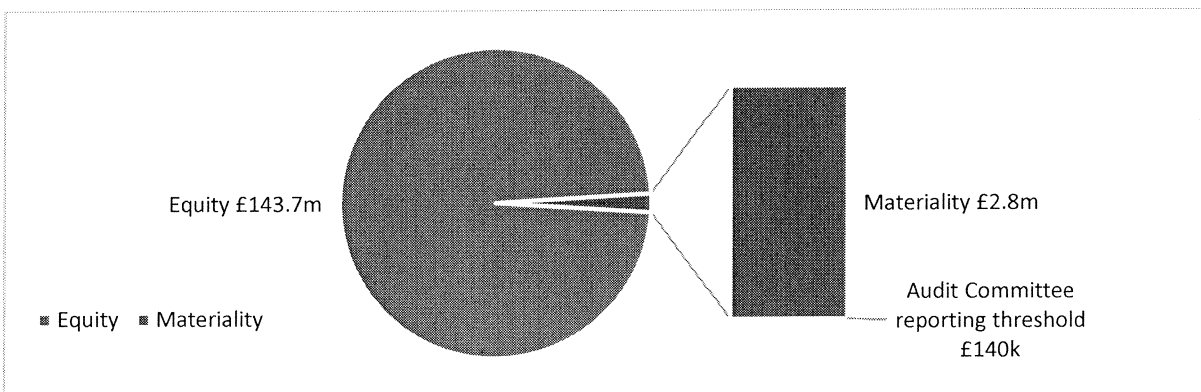
<p>How the scope of our audit responded to the key audit matter</p> 	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • assessed the policies, processes and controls in place in respect of derivative financial instruments; • engaged our financial instruments specialists to assess whether all contracts qualifying as derivative financial instruments (including embedded derivatives) had been identified, assessed and valued appropriately; • assessed the hedge documentation against the requirement of IAS 39; • performed a review of effectiveness testing to evaluate whether this met the criteria established under IAS 39; • based on the results of the effectiveness testing, critically evaluated whether the recycling of reserves was accounted for appropriately under IAS 39; • performed independent valuations of the derivative financial instruments; and • critically reviewed the disclosures in the statutory accounts for compliance with IAS 39.
<p>Key observations</p> 	<p>We found that the cash flow hedge relationships were accurately accounted for and the hedging documentation inspected supported the effectiveness of the hedges. The valuations and disclosure of derivative financial instruments, including embedded derivatives were appropriate.</p>

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£2.8m
Basis for determining materiality	2% of equity
Rationale for the benchmark applied	We believe equity is the most appropriate benchmark as it is considered to be one of the principal considerations for members of the Company in assessing its financial performance.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £140,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative

Independent Auditor's report to the Members of Eversholt Funding plc (continued)

for the year ended 31 December 2017

grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. We performed a risk assessment which factors in the size, composition and qualitative factors relating to all account balances, classes of transactions and disclosures. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report including Strategic report and Directors' report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

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

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

Independent Auditor's report to the Members of Eversholt Funding plc (continued)

for the year ended 31 December 2017

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Independent Auditor's report to the Members of Eversholt Funding plc (continued)
for the year ended 31 December 2017

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 19 February 2016 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 December 2015 to 2017.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).



Makhan Chahal ACA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP,
Statutory Auditor
London

29th March 2018

Income statement

for the year ended 31 December 2017

	<i>Note</i>	2017 £'000	2016 £'000
Revenue			
Fee income		979	1,594
Finance income	4	105,077	84,907
Total revenue		106,056	86,501
Finance expense	5	(107,824)	(87,178)
Net fair value gain/(loss) on derivative financial instruments	12	15,888	(45,866)
Gross profit/(loss)		14,120	(46,543)
Administrative expense	6	(118)	(69)
Profit/(loss) before tax		14,002	(46,612)
Income tax (charge)/credit	8	(2,344)	6,800
Profit/(loss) for the year		11,658	(39,812)

There were no discontinued or discontinuing operations during the year.

The notes on pages 16 to 30 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2017

		2017 £'000	2016 £'000
Profit/(loss) for the year		11,658	(39,812)
Other comprehensive expense			
Effective portion of changes in fair value of cash flow hedges	12	(1,873)	(30,594)
Realised gain on cash flow hedges to Property, plant and equipment	12	769	47
Realised gain on cash flow hedged to Income statement	12	-	1,235
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	10	188	4,982
		(916)	(24,330)
Total comprehensive income/(expense) for the year		10,742	(64,142)

Effective portion of changes in fair value cash flow hedges may be reclassified to the Income statement upon termination of cash flow hedges.

Statement of financial position

as at 31 December 2017

	<i>Note</i>	2017 £'000	2016 £'000
Assets			
Non-current assets			
Deferred tax	10	27,021	29,486
Derivative financial instruments	12	6,294	9,142
Amounts owed by group undertakings	11	1,940,000	1,440,000
		<u>1,973,315</u>	<u>1,478,628</u>
Current assets			
Amounts owed by group undertakings	11	21,151	64,999
Cash and cash equivalents	13	501	791
Trade and other receivables		67	-
		<u>21,719</u>	<u>65,790</u>
Total assets		<u>1,995,034</u>	<u>1,544,418</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	14	233	526
Current tax		1,607	1,916
Borrowings	15	20,534	63,235
		<u>22,374</u>	<u>65,677</u>
Non-current liabilities			
Borrowings	15	1,934,714	1,430,890
Amounts owed to group undertakings	11	30,159	33,943
Derivative financial instruments	12	151,471	168,334
		<u>2,116,344</u>	<u>1,633,167</u>
Total liabilities		<u>2,138,718</u>	<u>1,698,844</u>
Equity			
Share capital	16	50	50
Accumulated deficit		(118,488)	(130,146)
Hedging reserve	12	(25,246)	(24,330)
Total equity		<u>(143,684)</u>	<u>(154,426)</u>
Total equity and liabilities		<u>1,995,034</u>	<u>1,544,418</u>

The notes on pages 16 to 30 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 29 March 2018. They were signed on its behalf by:


A J Wesson

Director

Company registration number: 07329930

Statement of cash flows

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flow from operating activities			
Profit/(loss) before tax		14,002	(46,612)
Adjustments for:			
- Finance expense	5	107,824	87,178
- Finance income	4	(105,077)	(84,907)
- Amortisation of capitalised finance charges		6,818	1,873
- Capitalisation of finance charges		(1,847)	(1,423)
- Fair value adjustment on derivative financial instruments		(15,888)	45,866
Operating cash flow before changes in working capital		5,832	1,975
(Increase)/decrease in trade and other receivables		(67)	3
(Decrease)/increase in trade and other payables		(293)	154
Cash generated by operating activities		5,472	2,132
Receipt in respect of group relief		-	5,370
Net cash generated by operating activities		5,472	7,502
Cash flow from investing activities			
Amounts borrowed by group entities		(450,000)	(130,000)
Net cash utilised in investing activities		(450,000)	(130,000)
Cash flow from financing activities			
Movement in working capital loan with Eversholt Rail Limited (formerly trading as Eversholt Rail (UK) Limited)		(3,784)	(1,008)
Settlements on derivative financial instruments		769	(3,933)
External borrowings repaid		(50,000)	-
External borrowing raised		500,000	130,000
Interest paid on bonds		(88,352)	(78,478)
Interest paid on bank loans		(147)	(690)
Interest paid on swaps		(16,316)	(4,966)
Interest received on loan to Eversholt Rail Limited		105,060	84,907
Bank interest received		17	-
Other finance expense		(3,009)	(3,043)
Net cash generated by financing activities		444,238	122,789
Net movement in cash and equivalents		(290)	291
Cash and cash equivalents at beginning of the year		791	500
Cash and cash equivalents at end of the year	13	501	791

Statement of changes in equity

for the year ended 31 December 2017

	<i>Note</i>	Share capital £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2016	16	50	-	(90,334)	(90,284)
Loss for the year		-	-	(39,812)	(39,812)
Effective portion of changes in fair value of cash flow hedges	12	-	(30,594)	-	(30,594)
Realised gain on cash flow hedged to property, plant and equipment	12	-	47	-	47
Realised gain on cash flow hedged to Income statement	12	-	1,235	-	1,235
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	10	-	4,982	-	4,982
Total comprehensive expense		-	(24,330)	(39,812)	(64,142)
Balance at 31 December 2016		50	(24,330)	(130,146)	(154,426)
Profit for the year		-	-	11,658	11,658
Effective portion of changes in fair value of cash flow hedges	12	-	(1,873)	-	(1,873)
Realised gain on cash flow hedged to property, plant and equipment	12	-	769	-	769
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	10	-	188	-	188
Total comprehensive (expense)/income		-	(916)	11,658	10,742
Balance at 31 December 2017		50	(25,246)	(118,488)	(143,684)

Notes to the annual financial statements

for the year ended 31 December 2017

1. General Information

Eversholt Funding plc (the "Company") is a private company incorporated and domiciled in England and Wales under the Companies Act and is limited by ordinary shares (see note 16). The registered office of the Company is 210 Pentonville Road, London, N1 9JY, United Kingdom.

2. Basis of Preparation

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

2.1 Compliance with International Financial Reporting Standards

The financial statements of Eversholt Funding plc have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2017, there were no unendorsed standards effective for the year ended 31 December 2017 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of the Company for the year ended 31 December 2017 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

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

2.2 Standards and Interpretations issued by the IASB and endorsed by the EU

During the year, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements. At 31 December 2017, a number of standards and amendments to standards have been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2017. The following Adopted IFRSs have been issued but have not been applied by the Company in these financial statements. Their adoption does not have a material effect on the financial statements.

- IFRS 9 Financial Instruments (mandatory for periods beginning on or after 1 January 2018).
- IFRS 15 Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (mandatory for periods beginning on or after 1 January 2018).
- IFRS 16 Leases (mandatory for periods beginning on or after 1 January 2019).

2.3 Going concern

The accumulated losses being greater than the called up share capital gives rise to there being an excess of liabilities over assets. The financial statements have been assessed in conjunction with the financial position of the Company's immediate parent, Eversholt Finance Holdings Limited, as its viability is dependent upon the ability of the Group companies to provide funds for the Company when required. As a result and having made appropriate enquiries, reviewed forecasts and having the commitment of support from the parent, the Directors consider it reasonable to assume that the Company has adequate resources to continue for the foreseeable future and on this basis the accounts have been prepared on a going concern basis.

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

3. Summary of significant accounting policies

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

3.1 Finance income and expense

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

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

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

3.2 Fees and commission income

Income earned on the execution of a significant act is recognised as revenue when the act is completed. Income earned from the provision of services is recognised as revenue as the services are provided and income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

3.3 Income tax

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

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting years and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the relevant entity intends to settle on a net basis and the legal right to offset exists.

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

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting year.

3.4 Financial instruments

3.4.1 Financial assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' (FVTPL); 'held to maturity investments'; 'available for sale (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets and financial liabilities are recognised in the Company's Statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

The Company holds the following classes of financial assets.

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.1.1 Loans and receivables

Loans and receivables include receivables originated by the Company which are not classified either as held for trading or designated at fair value. Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

3.4.1.2 Cash and cash equivalents

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

3.4.2 Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other' financial liabilities.

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. The Company derecognises the financial liability when the obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

3.4.3 Impairment of financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at each reporting 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 affected.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the Income statement. The carrying amount of impaired loans on the Statement of financial position is reduced through the use of impairment allowance account. Losses expected from future events are not recognised.

Individually assessed impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount.

Collectively assessed impairment losses are calculated on the basis of past experience, current economic conditions and other relevant factors to provide for losses not yet specifically identified.

Financial assets are written off to the extent that there is no realistic prospect of recovery.

3.4.4 Offsetting financial assets and financial liabilities

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.5 Derivatives and hedge accounting

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

Derivatives are initially recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income statement. However, where derivatives qualify for hedge accounting, the Company recognises the effective part of any gain or loss on the derivative financial instrument in Other comprehensive income, which is accounted for in the Hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income statement.

When the hedging relationship ends the hedging gain or loss recognised in Other comprehensive income is reclassified to the Income statement when the hedged item is recognised in the Income statement. When the hedged item related to a capital expenditure transaction and the hedging relationship ends, the hedging gain or loss recognised in Other comprehensive income is amortised to property, plant and equipment over the life of the hedged item.

Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. A derivative with a negative fair value is recognised as a financial liability.

3.4.6 Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

3. Summary of significant accounting policies (continued)**3.4 Financial instruments (continued)****3.4.6 Determination of fair value (continued)**

Transfers between levels of the fair value hierarchy are recognised at the end of the reporting year during which the change occurred.

3.5 Statement of cash flows

The Statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under 'Cash flow from operating activities', movements in intercompany transactions are shown under the heading of 'Cash flow from financing activities'. Such movements arise from the financing of the Eversholt UK Rails Group for which the Company is the finance provider.

3.6 Share capital

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

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

3.7 Use of judgements, estimates and assumptions

In the application of the Company's accounting policies, management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates. There are no accounting policies that are deemed critical to the Company's IFRS results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement.

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

4. Finance income

	2017 £'000	2016 £'000
Interest received from Eversholt Rail Limited	105,060	84,907
Bank interest	17	-
	<u>105,077</u>	<u>84,907</u>

5. Finance expense

	2017 £'000	2016 £'000
Interest payable on bank loans	(119)	(701)
Interest payable on derivative financial instruments	(16,161)	(5,495)
Interest payable on bonds	(88,774)	(78,713)
Fees payable	(75)	(123)
Interest payable to Eversholt Rail Limited	(2,695)	(2,146)
	<u>(107,824)</u>	<u>(87,178)</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

6. Administrative expense

	2017 £'000	2016 £'000
Administrative expense includes the following:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	(50)	(15)
The Company has no employees and hence no staff costs.		

7. Directors' emoluments**Non-executive directors**

	2017 £'000	2016 £'000
Directors' fees	<u>(22)</u>	<u>(25)</u>

The charge for three of the Directors' services has been borne by another group company, Eversholt Rail Limited. The charge for LDC Securitisation Director No. 3 Limited has been borne by the Company and is included in administrative expense.

8. Income tax (charge)/credit

	Note	2017 £'000	2016 £'000
Current tax			
UK Corporation tax on current year profit		309	(1,915)
UK Corporation tax on prior year profit		-	381
Deferred tax			
Origination and reversal of temporary differences	10	(3,004)	11,237
Change in tax rates	10	351	(2,564)
Prior year adjustment	10	-	(339)
Income tax (charge)/credit		<u>(2,344)</u>	<u>6,800</u>

The corporation tax rate reduction to 19% from 1 April 2017 was substantively enacted on 18 November 2015. A further reduction to 17% from 1 April 2020 was substantively enacted on 15 September 2016. As a result of these reductions the Company's future current tax charge will reduce accordingly.

The deferred tax at 31 December 2017 has been calculated based on the rate of 17% substantively enacted at the reporting date. The effect of the change in the rate to 17% is included in the financial statements.

The following table reconciles the tax credit which would apply if all profits and losses had been taxed at the UK corporation tax rate:

	2017 £'000	2016 £'000
Profit/(loss) before tax	14,002	(46,612)
Taxation at corporation tax rate of 19.25% (2016: 20%)	(2,695)	9,322
Change in tax rates	351	(2,564)
Prior year adjustment	-	42
Income tax (charge)/credit	<u>(2,344)</u>	<u>6,800</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

9. Dividends

For the year ended 31 December 2017 no dividend has been paid or declared (2016: £nil).

10. Deferred tax asset

Deferred tax arises on timing differences created by unrealised changes in the fair value of derivative financial instruments.

	2017 £'000	2016 £'000
Balance at beginning of the year	29,486	16,170
Amount arising from temporary differences on derivatives	(3,004)	11,237
Change in tax rates	351	(2,564)
Income tax on other comprehensive income	188	4,982
Prior year adjustment	-	(339)
Balance at end of the year	27,021	29,486

11. Amounts owed by/to group undertakings

	2017 £'000	2016 £'000
Current assets		
Eversholt Rail Limited	-	50,000
Intercompany accrued interest	21,151	14,999
	<u>21,151</u>	<u>64,999</u>
Non-current assets		
Eversholt Rail Limited	1,940,000	1,440,000
	<u>1,961,151</u>	<u>1,504,999</u>

The terms of this loan mirror the terms of the Company's external debt described in note 15.

	2017 £'000	2016 £'000
Non-current liabilities		
Eversholt Rail Limited – working capital loan	30,159	33,943

The intragroup working capital loan with Eversholt Rail Limited is classified as non-current as it is repayable on or before 4 November 2022. Borrowing entities may prepay and redraw loans until the repayment date. Interest on the loan is payable monthly at a floating rate, which substantially matches the rate of the Group's senior debt, plus margin (2016: Group's senior debt, plus margin).

12. Derivative financial instruments

	2017 £'000	2016 £'000
Non-current assets		
Interest rate swap contracts	6,294	9,142
Non-current liabilities		
Interest rate swap contracts	(127,557)	(152,990)
Interest rate swap contracts – hedge accounted	(23,914)	(15,344)
	<u>(151,471)</u>	<u>(168,334)</u>
Total derivative financial instruments	(145,177)	(159,192)

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

12. Derivative financial instruments (continued)

During the year the Company entered into two new swap contracts to hedge its interest rate risk exposure. These swaps are not designated in hedge accounting relationships. As at 31st December, the company's hedge accounted swaps were deemed to be highly effective and the fair value liability associated to these interest rate swaps was £23,914,501 (31 December 2016: £15,344,426).

Certain bond agreements include contractual obligations to settle cross-currency derivative financial instruments, that the lender has entered into pursuant to the bonds, in the event that the Company either defaults on or repays the bonds before maturity. The embedded derivatives resulting from such arrangements have been valued at £nil (2016 £nil) on the basis that the Company is not in default and is not forecast to be in default or repay bonds early.

	Not hedge accounted	Current Hedge Accounted	Terminated Hedge Accounted	Total
	31 December 2017	31 December 2017	31 December 2017	31 December 2017
	£'000	£'000	£'000	£'000
Movements in Derivative Financial Instruments				
Opening balance	(143,848)	(21,080)	5,736	(159,192)
Unrealised gain/(loss) through P&L	15,687	(84)	-	15,603
Realised gain/(loss) through P&L	-	-	285	285
Unrealised gain/(loss) through OCI	-	(2,750)	877	(1,873)
Consideration on termination	-	-	(6,898)	(6,898)
Impact of repricing for consideration of swap terminated	6,898	-	-	6,898
Cash paid on termination	-	-	-	-
Closing balance	(121,263)	(23,914)	-	(145,177)
Movements in Hedging Reserves				
Opening balance	-	17,280	7,050	24,330
Unrealised gain/(loss) through OCI	-	2,750	(877)	1,873
OCI release to PPE	-	-	(769)	(769)
OCI release to P&L	-	-	-	-
Deferred tax on OCI movement	-	(468)	280	(188)
Closing balance	-	19,562	5,684	25,246

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

12. Derivative financial instruments (continued)

	Not hedge accounted	Current Hedge Accounted	Terminated Hedge Accounted	Total
	31 December 2016	31 December 2016	31 December 2016	31 December 2016
	£'000	£'000	£'000	£'000
Movements in Derivative Financial Instruments				
Opening balance	(87,945)	-	-	(87,945)
Unrealised gain/(loss) through P&L	(55,903)	(262)	72	(56,093)
Realised gain/(loss) through P&L	-	-	11,462	11,462
Unrealised gain/(loss) through OCI	-	(20,818)	(9,776)	(30,594)
Consideration on termination	-	-	-	-
Impact of repricing for consideration of swap terminated	-	-	-	-
Cash paid on termination	-	-	3,978	3,978
Closing balance	(143,848)	(21,080)	5,736	(159,192)
Movements in Hedging Reserves				
Opening balance	-	-	-	-
Unrealised gain/(loss) through OCI	-	20,818	9,776	30,594
OCI release to PPE	-	-	(47)	(47)
OCI release to P&L	-	-	(1,235)	(1,235)
Deferred tax on OCI movement	-	(3,538)	(1,444)	(4,982)
Closing balance	-	17,280	7,050	24,330

During the year three derivative interest rate contracts were terminated for a consideration of £6,898,000. The consideration was used to reprice other contracts held with the same counterparties.

At 31 December 2017 the Company held interest rate swaps with a fair value of £121,263,000 (liability) which were not designated in hedging relationships for accounting purposes.

The fair value of derivative financial instruments is based on market rates at 31 December 2017.

Net effective portion of changes in fair value of interest rate swaps includes £5,442,948 in relation to terminated interest rate swaps that will be recognised in the income statement in future years.

13. Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2017 £'000	2016 £'000
Bank balances	501	791

£500,000 of cash and cash equivalents is restricted cash in line with the terms of an agreement with the security trustee for the Company's secured creditors.

14. Trade and other payables

	2017 £'000	2016 £'000
Fees and other payables accrued	233	526

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

15. Borrowings

	2017 £'000	2016 £'000
Current		
Bank loans	-	50,000
Interest accrued	21,151	14,999
Transaction costs	(617)	(1,764)
	<u>20,534</u>	<u>63,235</u>
Non-current		
Bonds	1,940,000	1,440,000
Transaction costs	(5,286)	(9,110)
	<u>1,934,714</u>	<u>1,430,890</u>
	<u>1,955,248</u>	<u>1,494,125</u>

The current bank loan is a drawing under a committed revolving credit facility that is technically repayable and redrawn on each interest payment date.

Bond principal amount	Due date	Interest rate Semi-annual coupon
£300m	2020	5.8%
£400m	2025	6.4%
£400m	2021-2035	6.7%
£100m	2028-2036	LIBOR+margin
£90m	2030	Fixed rate
£50m	2028-2036	Fixed rate
£100m	2026-2031	Fixed rate
£100m	2037	Fixed rate
£400m	2034-2042	3.5%

None of the bonds are puttable.

Bank loans and Bond agreements impose certain covenants on the performance and management of the Eversholt UK Rails (Holding) Limited Group (Security group) ("Security group"). Failure to comply with these covenants may result in the loans being repayable on demand. The Security group was in compliance with these covenants during 2017.

The Security group has granted a fixed and floating charge over all of its assets to secure this financing.

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

Maturity of borrowings

The maturity profile of the carrying amount of the Company's non-current borrowings at 31 December 2017 was as follows:

	2017 £'000	2016 £'000
In more than two years but not more than five years	342,857	300,000
In more than five years	1,597,143	1,140,000
	<u>1,940,000</u>	<u>1,440,000</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

16. Share capital

	2017 £'000	2016 £'000
Authorised, allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	<u>50</u>	<u>50</u>

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

17. Risk management

The Company has exposure to the following types of risk arising from its use of financial instruments: credit risk, liquidity risk and market risk. Market risk includes interest rate risk.

The management of all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this note.

Capital risk management

The Board actively monitors the capital structure of the Company to ensure that the Company is able to continue as a going concern. Consideration is given to the cost and risks associated with each class of capital. The Board actively monitors cash and availability of funding.

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

Credit risk management

The credit risk arises from placing cash deposits and entering into derivative contracts with third parties and committed undrawn borrowings. Credit risk is managed in line with established procedures which consider credit quality of counterparties and concentration of risk.

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. The Company has access to a £600m committed revolving credit facility available until 2022, which was undrawn as at 31 December 2017, to ensure that there is adequate headroom to meet all of the Group's cashflow obligations as they fall due.

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

17. Risk management (continued)

Undiscounted cash flows in respect of the intercompany working capital loan from Eversholt Rail Limited include the principal amount only, due to the uncertainty of working capital movements and of interest estimation. Interest on working capital loans is settled as part of working capital cash movements and not accrued.

31 December 2017	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
Financial assets						
Held to maturity financial instruments						
- Derivative financial instruments	6,294	7,691	-	1,766	5,925	-
Loans and receivables						
- Intercompany term loans	1,961,151	2,779,458	-	98,908	610,279	2,070,271
Cash and cash equivalents	501	501	1	-	-	500
Trade and other receivables	67	67	-	67	-	-
Total Financial assets	1,968,013	2,787,717	1	100,741	616,204	2,070,771
Financial liabilities						
Held to maturity financial instruments						
- Derivative financial instruments	151,471	81,798	-	16,978	64,820	-
Borrowings and payables						
- Borrowings	1,961,151	2,779,458	-	98,908	610,279	2,070,271
- Intercompany working capital	30,159	30,159	-	-	30,159	-
- Trade and other payables	233	233	-	233	-	-
Total Financial liabilities	2,143,014	2,891,648	-	116,119	705,258	2,070,271
Total Financial Instruments	(175,001)	(103,931)	1	(15,378)	(89,054)	500

Cash and cash equivalents (due after 5 years) of £500,000 (2016: £500,000) represents cash held as collateral and is restricted.

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

17. Risk management (continued)**Liquidity risk management (continued)**

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2016						
Financial assets						
Held to maturity financial instruments						
- Derivative financial instruments	9,142	2,399	-	708	1,691	-
Loans and receivables						
- Intercompany term loans	1,504,999	2,447,679	-	133,449	642,239	1,671,991
Cash and cash equivalents	791	791	291	-	-	500
Total Financial assets	1,514,932	2,450,869	291	134,157	643,930	1,672,491
Financial liabilities						
Held to maturity financial instruments						
- Derivative financial instruments	168,334	70,843	-	17,053	53,790	-
Borrowings and payables						
- Borrowings	1,504,999	2,447,679	-	133,449	642,239	1,671,991
- Intercompany working capital	33,943	33,943	-	-	33,943	-
- Trade and other payables	526	526	-	526	-	-
Total Financial liabilities	1,707,802	2,552,991	-	151,028	729,972	1,671,991
Total Financial instruments	(192,870)	(102,122)	291	(16,871)	(86,042)	500

Market risk management**Interest rate risk management**

The Company is exposed to interest rate risk because it borrows and deposits funds at fixed and floating interest rates. The cash flow risk is managed by the Company to maintain an appropriate mix between fixed and floating rate borrowings through the use of interest rate swaps.

	2017 £'000	2016 £'000
Financial liabilities – Fixed Rate	(1,790,000)	(1,340,000)
Financial liabilities – Fixed by interest rate hedging	(150,000)	(150,000)
Financial liabilities – working capital loan	(30,159)	(33,943)
Financial assets – Fixed Rate	1,790,000	1,340,000
Financial assets – Fixed by interest rate hedging	150,000	150,000

Interest rate sensitivity analysis

The impact of a 50 basis points increase in GBP LIBOR would have resulted in an increase in interest expense of £662,729 offset by an increase of £662,729 in intercompany term lending interest receipt, an increase in intercompany working capital interest expense of £62,369 and an increase in cash deposit interest received of £118. A 50 basis points upwards parallel shift in the yield curve would have led to a decrease in fair value liability and a net fair value gain of £606,312 on derivative financial instruments.

Foreign exchange risk

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

18. Financial Instruments

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

	Note	Carrying amount		Fair value	
31 December 2017		£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	12	6,294	-	6,294	
Loans and receivables					
- Intercompany loan receivables	11	1,500,000	-	1,790,147	
- Intercompany loan receivables (fixed)	11	340,000		364,439	
- Intercompany loan receivables (other)	11	121,151			
Cash and cash equivalents	13	501			
Trade and other receivables		67			
Total Financial assets		<u>1,968,013</u>			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	12	151,471	-	151,471	
Non-derivative instruments – amortised cost					
- Publicly traded bonds	15	1,500,000	1,790,147	-	
- Fixed rate borrowings	15	340,000	-	364,439	
- Other borrowings	15	121,151			
- Intercompany working capital loan	11	30,159			
Trade and other payables	14	233			
Total Financial liabilities		<u>2,143,014</u>			
Total Financial instruments		<u>(175,001)</u>			

	Note	Carrying amount		Fair value	
31 December 2016		£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	12	9,142	-	9,142	
Loans and receivables					
- Intercompany loan receivables	11	1,100,000	-	1,423,790	
- Intercompany loan receivables (fixed)	11	240,000		262,178	
- Intercompany loan receivables (other)	11	164,999			
Cash and cash equivalents	13	791			
Total Financial assets		<u>1,514,932</u>			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	12	168,334	-	168,334	
Non-derivative instruments – amortised cost					
- Publicly traded bonds	15	1,100,000	1,423,790	-	
- Fixed rate borrowings	15	240,000	-	262,178	
- Other Borrowings	15	164,999			
- Intercompany working capital loan	11	33,943			
Trade and other payables	14	526			
Total Financial liabilities		<u>1,707,802</u>			
Total Financial instruments		<u>(192,870)</u>			

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

18. Financial Instruments (continued)

There are no other material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2017 (2016: £nil).

19. Related-party transactions

19.1 Identity of related parties

The Company has a related party relationship with its directors (refer page 3) and with its fellow group undertakings of the Eversholt UK Rails Group, namely:

- Eversholt UK Rails Limited
- Eversholt UK Rails (Holding) Limited
- European Rail Finance Holdings Limited
- European Rail Finance Limited
- Eversholt Rail Leasing Limited (formerly trading as European Rail Finance (GB) Limited)
- Eversholt Rail Holdings (UK) Limited
- Eversholt Investment Limited
- Eversholt Finance Holdings Limited
- Eversholt Rail Limited
- Eversholt Depot Finance Limited (formerly trading as Eversholt Depot Finance (UK) Limited)
- Eversholt Rail (380) Limited
- Eversholt Rail (365) Limited
- European Rail Finance (2) Limited

The ultimate parent undertaking (which is the ultimate controlling party) is CK Hutchison Holdings Limited, incorporated in Cayman Islands. The parent undertaking of the largest and smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member is CK Hutchison Holdings Limited. The immediate holding company is Eversholt Finance Holdings Limited. The results of the Company are included in the Group financial statements of CK Hutchison Holdings Limited.

Copies of the Group financial statements of CK Hutchison Holdings Limited may be obtained from the following address (the registered office of the ultimate parent undertaking):

PO Box 309
Ugland House
Grand Cayman
KY1 – 1104
Cayman Islands

19.2 Transactions with related parties

The Company has loan accounts with fellow subsidiaries described in note 11 and note 15. Interest on these accounts is described in notes 4 and 5.

Payments made to directors are described in note 7.

The Company charged a management fee to Eversholt Rail Limited of £15,000 (2016: £15,000). The Company received a refund of management fees from Eversholt Investment Ltd of £10,000 (2016: £10,000 paid). The Company charged a transactions fee to Eversholt Rail Leasing Limited of £845,400 (2016: £1,388,100).

The Company transferred borrowing related transaction costs of £7,647,000 (2016: £1,752,000) to Eversholt Rail Leasing Limited, £6,000 (2016: £15,000) to Eversholt Depot Finance Limited and £49,000 (2016: £107,000) to Eversholt Rail Holdings (UK) Limited.

20. Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2017 (2016: £nil).

21. Subsequent events

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