

**Eversholt UK Rails (Holding) Limited  
(Security group)**

**Non-statutory annual report and financial statements  
for the year ended 31 December 2017**

**Registered No: 10783654**

**Annual report and financial statements**

for the year ended 31 December 2017

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## Strategic report

for the year ended 31 December 2017

### Presentation of information

These financial statements are non-statutory financial statements and have been prepared solely for the purpose of meeting the reporting requirements of the Financing Documents entered into by certain of the subsidiaries of Eversholt UK Rails (Holding) Limited (the "Company") on 4 November 2010 and which the Company acceded to on 28 June 2017. The Security Group (the 'Group') consists of the Company and its subsidiaries except for Eversholt Rail (365) Limited.

The Company was incorporated on 22 May 2017 as part of a group reorganisation and acquired 100% of the share capital of Eversholt Investment Limited (the previous head of the Group) from the Company's parent, Eversholt UK Rails Limited. The sole purpose of the reorganisation was to simplify the corporate structure of the Group. The reorganisation did not result in any changes to the capital structure of the Group. As highlighted in note 2, the Group has presented its non statutory financial statements as though the current Group structure had always been in place.

The Strategic report covers matters relating to the Group throughout the current and comparative periods as though the Group was in existence for both periods.

### Principal activities

The principal activity of the Group is to own and lease rolling stock and other rail assets in the United Kingdom. The Group owns a diverse range of passenger rolling stock including regional, commuter and high speed passenger trains as well as freight locomotives. Customers comprise train operating companies ("TOCs") and freight operating companies ("FOCs"). Most TOCs are granted franchises to operate passenger rail services by the DfT (or other competent franchising authority) whilst FOCs and other TOCs operate on an open access basis. Rolling stock is typically leased to customers on medium to long-term operating leases, the terms of which coincide with the customer's franchise arrangements. The Group also provides services in relation to the procurement and management of heavy maintenance of rolling stock on behalf of its customers.

### Business review

During the year the Group continued to progress its programme of new build rolling stock, management and procurement of heavy maintenance and investments in upgrades to existing fleets as detailed below.

The Group made significant progress during 2017 in relation to the four new fleets currently being procured:

- Hitachi Rail Europe are supplying 36 Class 802 Bi-Mode trains (236 vehicles) that will run on the Great Western network;
- CAF are supplying 55 Class 195 DMU trains (140 vehicles) and 42 Class 331 Electric trains (141 vehicles) to run on the Northern network; and
- CAF are also supplying 12 Class 397 high speed Electric trains (60 vehicles) to run on the Transpennine Express routes.

All design reviews for all four new fleets were successfully completed in 2017 and delivery dates are expected to be in line with respective Manufacturer Supply Agreements. As at 31 December 2017, 115 Class 802 vehicles, 14 Class 195 vehicles, 15 Class 331 vehicles and 25 Class 397 vehicles were in production. Of these, three Class 802 trains had been delivered to the UK for network testing. Expenditure on new build rolling stock in 2017 amounted to £164.6m.

During 2017 the Group delivered several heavy maintenance projects across a number of the Group's fleets, providing mileage based and time based overhauls in line with planned maintenance programmes for c 500 vehicles. Completed projects include Class 318 time based overhaul, Class 334 mileage based overhaul, and time based overhauls on the Class 365 and Class 320/4. Maintenance work on upgraded Class 321 Renatus units ramped up and, as with previous years, work continued on the IC225 fleet. In total, the Group incurred costs of £58.7m in relation to maintenance related activity in 2017.

## **Strategic report (continued)**

for the year ended 31 December 2017

### **Business review (continued)**

The Group undertakes strategic upgrades to rolling stock to ensure that its fleets continue to meet regulatory requirements and the current and future demands of its customers. A number of upgrade projects were progressed during 2017 including Class 321 Renatus upgrades; completion of Class 318 upgrades and passengers with reduced mobility modifications ("PRM"); and conversion of 7 x Class 321 to Class 320/4 units. In addition, steady state production was achieved on a number of programmes that will continue during 2018 including the Class 185 modifications for Transpennine Express, Class 465 PRM and Class 375 refresh. The Group also worked with its customers to fund £15m of lessee procured modifications which will be recovered through enhanced operating lease rentals. The largest of these was the transformation of the interiors on the Mk4 fleet on Virgin Trains East Coast. Expenditure on modification and refurbishment projects totalled £83.8m during 2017.

### **Risk management**

The Group has established financial risk management objectives and policies. These objectives, together with an analysis of the exposure to such risks, are set out in note 29 of the financial statements.

The principal business risk for the Group is in respect of residual value of its operating lease assets. The Group seeks to maximise the re-letting potential, and therefore the residual value, of its assets by active management of the technical and commercial utility of these assets.

An assessment is carried out by management at least annually of the commercial value of all operating lease assets, measured as the present value of the net anticipated cash flows arising from ownership over the life of the assets.

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

The Group has developed a specialist in-house inspection team who consider whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis. The asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Group has an excellent knowledge of the current condition of its fleets.

The Group fleet performance is constantly monitored for emerging trends that might indicate that a particular fleet has developed a problem. In addition, the Group works proactively with train operators to identify opportunities to improve the performance of its fleets. The Group maintains constant dialogue with the train operators on fleet performance so that any issues can be dealt with quickly.

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

### **Performance**

In the year the Group generated a profit of £37,366,000 (2016: loss of £2,052,000). As at 31 December 2017 the Group had net liabilities of £297,324,000 (2016: £298,737,000). The average number of persons employed by the Group during the year was 110 (2016: 109). As described in note 2.4 the Directors are satisfied that the Group, through the support of its parent, has the resources to continue in business for the foreseeable future.

The results for the Group for the year are as detailed in the Income statement on page 10.

## **Strategic report (continued)**

for the year ended 31 December 2017

### **Performance (continued)**

The Group is financed by a mix of equity and senior debt. The terms of senior debt require compliance with certain covenants and financial ratios which are calculated and forecast as part of monthly internal management reporting. The Group was in compliance with all of its senior debt covenants during the year.

Other financial performance measures such as profit after tax and EBITDA (earnings before interest, tax, depreciation and amortisation) also feature in monthly internal management reporting. The Group also monitors a number of key non-financial indicators relating to asset performance including condition, reliability and maintenance as well as the number and value of off-lease assets.

### **Supplier payment policy**

The Group does not currently subscribe to any code or standard on payment practice. It is the Group's policy, however, to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

### **Capital management**

The Group is not subject to externally imposed capital requirements. It is the Group's objective to maintain a strong capital base to support the development of its business.

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

M B Kenny	Appointed 22 May 2017
A J Course	Appointed 22 May 2017
A J Wesson	Appointed 22 May 2017
LDC Securitisation Director No 3. Limited	Appointed 22 May 2017

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. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. The Directors have no interests in the share capital of the Company.

### Future developments

In 2018, the Group expects to start accepting the new rolling stock fleets, described on page 2, from manufacturers. All the new vehicles are expected to have been accepted, and to have entered into operational service, by 2020.

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

### Dividends

Dividends of £43,040,992 were paid in the year (2016: £14,772,150). Dividend payments are reflected in the financial statements in the year in which they are declared.

### Going concern basis

The financial statements are prepared on the going concern basis, as the Directors are satisfied that the Group, through the support of its parent, 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.

### Disclosure of information to the auditor

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

### Auditor

Pursuant to Section 487 of the Companies Act 2006, Deloitte LLP was appointed the Auditor.

Approved by the Board and signed on its behalf by:

**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 of Eversholt UK Rails (Holding) Limited have accepted responsibility for the preparation of these non-statutory financial statements for the year ended 31 December 2017.

The Directors have elected to prepare these non-statutory financial statements in accordance with the basis of preparation as described in note 2 to the non-statutory financial statements. The non-statutory financial statements have been properly prepared in accordance with the summary of significant accounting policies as described in note 3 to the financial statements. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable IFRSs have been followed; and
- Prepare the non-statutory financial statements on the going concern basis unless it is inappropriate to presume that the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities.

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

These financial statements were approved by the Board of Directors on 29 March 2018 and were signed on its behalf by:



**M B Kenny**

Director

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

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

for the year ended 31 December 2017

**Report on the audit of the non-statutory financial statements**

**Opinion**

In our opinion, the non-statutory financial statements for the year ended 31 December 2017 have been properly prepared in accordance with the basis of preparation and accounting policies as stated in notes 2 and 3.

We have audited the non-statutory financial statements of Eversholt UK Rails (Holding) Limited (Security group) (the 'Group') which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated statement of financial position;
- the Consolidated cash flow statement;
- the Consolidated statement of changes in equity; and
- the related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is the accounting policies as stated in note 3 to the financial statements.

**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 non-statutory 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 non-statutory financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We draw attention to note 2.1 to the non statutory financial statements, which describes basis of accounting. The non-statutory financial statements are prepared to assist the Group to fulfil their obligations to provide audited non-statutory financial statements under the terms of the financing agreement (the "Agreement"). As a result, the non statutory financial statements may not be suitable for another purpose. Our opinion is not modified in respect of that matter.

**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 non-statutory financial statements is not appropriate; or
- the Directors have not disclosed in the non-statutory 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 non-statutory financial statements are authorised for issue.

We have nothing to report in respect of these matters.



**Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited (Security group) (continued)** for the year ended 31 December 2017

**Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the non-statutory financial statements and our auditor's report thereon. Our opinion on the non-statutory financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory 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 non-statutory 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.

We have nothing to report in respect of these matters.

**Responsibilities of directors**

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the non-statutory financial statements in accordance with the accounting policies as stated in notes 2 and 3 to the financial statements and for such internal control as the Directors determine is necessary to enable the preparation of non-statutory financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the non-statutory financial statements**

Our objectives are to obtain reasonable assurance about whether the non-statutory 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 non-statutory financial statements.

A further description of our responsibilities for the audit of the non-statutory financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Use of our report**

This report is made solely for the exclusive use of the Directors and solely for the purpose of reasonable assurance that the financial statements are properly prepared. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

**Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited (Security group) (continued)** for the year ended 31 December 2017

**Report on other legal and regulatory requirements**

**Matters on which we are required to report by exception**

Under the Agreement we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

The engagement partner on the audit resulting in this independent auditor's report is Makhan Chahal.

*Deloitte LLP*

Deloitte LLP  
London

*29H* March 2018

**Consolidated income statement**

for the year ended 31 December 2017

	Note	Group	
		Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Revenue</b>			
Finance lease income		635	699
Operating lease income		305,066	294,046
Maintenance income		70,264	69,092
Other revenue		2,434	3,527
<b>Total revenue</b>		<b>378,399</b>	<b>367,364</b>
Cost of sales	4	(170,570)	(163,221)
<b>Gross profit</b>		<b>207,829</b>	<b>204,143</b>
Finance income	5	840	186
Finance expense	6	(153,137)	(130,600)
Net fair value gain/(loss) on derivatives	14	15,869	(45,730)
Pension finance expense	28.6	(147)	(97)
Administrative expense	7	(20,983)	(20,258)
Profit on disposal of property, plant and equipment		-	12
<b>Profit before tax</b>		<b>50,271</b>	<b>7,656</b>
Income tax charge	10	(12,905)	(9,708)
<b>Profit/(loss) for the year</b>		<b>37,366</b>	<b>(2,052)</b>

There were no discontinued or discontinuing operations during the year.

The notes on pages 14 to 43 form an integral part of these financial statements.

**Consolidated statement of comprehensive income**

for the year ended 31 December 2017

		Group	
		Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Profit/(loss) for the year</b>		<b>37,366</b>	<b>(2,052)</b>
<b>Other comprehensive income/(expense)</b>			
Actuarial gain/(loss) on defined benefit scheme	28.7	2,452	(2,988)
Tax in respect of actuarial gain/(loss) on defined benefit scheme	15	(417)	510
Effective portion of changes in fair value of cash flow hedges	14	5,792	(4,723)
Realised gain/(loss) on cash flow hedges to Property, plant and equipment	14	296	(1,272)
Realised gain on cash flow hedges to the Income statement	14	-	1,235
Tax (charge)/credit on changes in effective portion of changes in fair value of cash flow hedges	15	(1,035)	816
		<b>7,088</b>	<b>(6,422)</b>
<b>Total comprehensive income/(expense) for the year</b>		<b>44,454</b>	<b>(8,474)</b>

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

**Consolidated statement of financial position**

as at 31 December 2017

	Note	Group	
		As at 31 December 2017 £'000	As at 31 December 2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	2,009,163	1,872,396
Finance lease receivables	12	6,333	7,198
Derivative financial instruments	14	34,202	29,558
Deferred tax	15	30,521	32,951
Investments in subsidiary	16	2,835	2,835
		<u>2,083,054</u>	<u>1,944,938</u>
<b>Current assets</b>			
Inventory	17	942	1,149
Finance lease receivables	12	865	1,001
Trade and other receivables	13	42,549	29,678
Cash and cash deposits	18	344,605	50,566
		<u>388,961</u>	<u>82,394</u>
<b>Total assets</b>		<u>2,472,015</u>	<u>2,027,332</u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables	19	58,999	53,626
Current tax		8,978	16,249
Borrowings	20	20,534	63,235
Derivative financial instruments	14	-	153
Deferred revenue	21	3,142	3,290
Provisions	22	35	35
		<u>91,688</u>	<u>136,588</u>
<b>Non-current liabilities</b>			
Retirement benefit obligation	28.5	3,874	5,968
Borrowings	20	2,283,562	1,802,152
Amounts owed to Eversholt Rail (365) Limited		13,695	22,848
Deferred tax	15	78,298	66,424
Deferred revenue	21	146,751	123,756
Derivative financial instruments	14	151,471	168,333
		<u>2,677,651</u>	<u>2,189,481</u>
<b>Total liabilities</b>		<u>2,769,339</u>	<u>2,326,069</u>
<b>Equity</b>			
Share capital	23	-	-
Other reserve		13,672	13,672
Accumulated deficit		(312,105)	(308,465)
Hedging reserve		1,109	(3,944)
<b>Total equity</b>		<u>(297,324)</u>	<u>(298,737)</u>
<b>Total equity and liabilities</b>		<u>2,472,015</u>	<u>2,027,332</u>

The notes on pages 14 to 43 form an integral part of these financial statements. The financial statements were approved by 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: 17083654



**Consolidated statement of cash flows**

for the year ended 31 December 2017

		Group	
		Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
	<i>Note</i>		
<b>Cash flow from operating activities</b>			
Profit before tax		50,271	7,656
Adjustments for:			
- Depreciation	11	111,965	108,388
- Write down of inventory	4	206	206
- Fair value adjustment on derivative financial instrument		(15,869)	45,730
- Profit on disposal of property, plant and equipment		-	(12)
- Unwinding of capitalised finance charges	6	10,105	3,843
- Interest on net borrowings	5,6	142,192	126,571
- Adjustment for non-cash element of pension charge		358	217
<b>Operating cash flows before changes in working capital</b>		<b>299,228</b>	<b>292,599</b>
Decrease in finance lease receivable		1,001	938
(Increase)/decrease in trade and other receivables		(12,871)	8,494
Increase in deferred revenue		20,784	15,756
Decrease in provisions		-	(1,119)
Increase in trade and other payables		5,795	10,140
<b>Net cash flow generated by operating activities</b>		<b>313,937</b>	<b>326,808</b>
Taxation paid		(7,325)	(32,301)
Interest received	5	840	185
<b>Net cash generated by operating activities</b>		<b>307,452</b>	<b>294,692</b>
<b>Cash flow from investing activities</b>			
Acquisition of property, plant and equipment		(248,436)	(273,696)
Proceeds from disposal of property, plant and equipment		-	12
Investment in short-term bank deposits		(250,000)	-
<b>Net cash utilised in investing activities</b>		<b>(498,436)</b>	<b>(273,684)</b>
<b>Cash flow from financing activities</b>			
Funds raised	20	500,000	130,000
Preference share redeemed	20	(25,000)	-
Preference share issued	20	2,500	-
Bank loans repaid	20	(50,000)	-
Shareholders loans repaid		-	(24,142)
Settlements on derivative instruments		-	1,731
Finance expense paid	25	(140,283)	(127,387)
Dividends paid		(43,041)	(14,772)
Payment to Eversholt Rail (365) Limited		(9,153)	(8,527)
<b>Net cash generated by/(utilised in) financing activities</b>		<b>235,023</b>	<b>(43,097)</b>
Net movement in cash and cash equivalents		44,039	(22,089)
Cash and cash equivalents at beginning of the year		50,566	72,655
<b>Cash and cash equivalents at end of the year</b>	<b>18</b>	<b>94,605</b>	<b>50,566</b>

**Consolidated statement of changes in equity**

for the year at 31 December 2017

	Note	Share capital £'000	Other reserve £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
<b>Balance at 1 January 2016</b>	<b>23</b>	-	<b>13,672</b>	-	<b>(289,163)</b>	<b>(275,491)</b>
Loss for the year		-	-	-	(2,052)	(2,052)
Effective portion of changes in fair value of cash flow hedges	<b>14</b>	-	-	(4,723)	-	(4,723)
Realised gain on cash flow hedges to Property, plant and equipment	<b>14</b>	-	-	(1,272)	-	(1,272)
Realised gain on cash flow hedges to the Income statement	<b>14</b>	-	-	1,235	-	1,235
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	<b>15</b>	-	-	816	-	816
Actuarial losses on defined benefit scheme after tax		-	-	-	(2,478)	(2,478)
<b>Total comprehensive expense</b>		-	-	<b>(3,944)</b>	<b>(4,530)</b>	<b>(8,474)</b>
Dividend paid	<b>26</b>	-	-	-	(14,772)	(14,772)
<b>Balance at 31 December 2016</b>		-	<b>13,672</b>	<b>(3,944)</b>	<b>(308,465)</b>	<b>(298,737)</b>
Profit for the year		-	-	-	37,366	37,366
Effective portion of changes in fair value of cash flow hedges	<b>14</b>	-	-	5,792	-	5,792
Realised loss on cash flow hedges to Property, plant and equipment	<b>14</b>	-	-	296	-	296
Tax charge on changes in effective portion of changes in fair value of cash flow hedges	<b>15</b>	-	-	(1,035)	-	(1,035)
Actuarial gain on defined benefit scheme after tax		-	-	-	2,035	2,035
<b>Total comprehensive income</b>		-	-	<b>5,053</b>	<b>39,401</b>	<b>44,454</b>
Dividend paid	<b>26</b>	-	-	-	(43,041)	(43,041)
<b>Balance at 31 December 2017</b>		-	<b>13,672</b>	<b>1,109</b>	<b>(312,105)</b>	<b>(297,324)</b>

Dividends of £421,971 per share were paid during the year (2016: £144,824 per share).

## Notes to the annual financial statements

for the year ended 31 December 2017

### 1 General Information

Eversholt UK Rails (Holding) Limited (the "Company"), is a private company incorporated on 22 May 2017 and domiciled in England and Wales and is limited by authorised shares (see note 23). 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 Basis of consolidation

The Company was incorporated on 22 May 2017 as part of a group reorganisation as a direct subsidiary of Eversholt UK Rails Limited, (itself a direct subsidiary of UK Rails Sarl) and subsequently acquired 100% of the share capital of Eversholt Investment Limited from Eversholt UK Rails Limited. The sole purpose of the reorganisation was to simplify the corporate structure of the Eversholt UK Rails Group. The reorganisation did not result in any changes to the capital structure of this group.

As UK Rails Sarl controlled the Company and Eversholt Investment Limited both before and after the group reconstruction, there was no loss of control of the subsidiary undertakings during this restructuring process and so the results of the newly consolidated group headed by the Company have been prepared on the basis that the Group had always existed in its current form.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 "Business Combinations" provided that they are controlled by the same party both before and after the business combination. As a consequence the integration of the Company has been prepared under merger accounting principles. This does not conflict with IFRS, and reflects the economic substance of the transaction. Differences on consolidation arising from the change in the head of group post the reorganisation detailed above are recorded in other reserve. The amount in other reserve comprises the difference between the share capital and share premium from the previous head of the group (Eversholt Investment Limited) and the new head (Eversholt UK Rails (Holding) Limited).

The consolidated financial statements of Eversholt UK Rails (Holding) Limited and its subsidiaries except for Eversholt Rail (365) Limited (the "Group") have been prepared solely for the reporting requirements of the Financing Documents dated 4 November 2010 entered into by certain of the Company's subsidiaries and which the Company acceded to on 28 June 2017.

The Group's interest in Eversholt Rail (365) Limited is not consolidated but stated at cost. All other subsidiaries are consolidated from the date that the Company gains control. The acquisition method of accounting is used when subsidiaries are acquired by the Group. The cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of completion. Acquisition-related costs are recognised as an expense in the Income statement in the period in which they are incurred. The acquired assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition.

Other than Eversholt Rail (365) Limited, entities that are controlled by Eversholt UK Rails (Holding) Limited are consolidated until the date that control ceases. All inter-company transactions are eliminated on consolidation, other than transactions with Eversholt Rail (365) Limited.

#### 2.2 Compliance with International Financial Reporting Standards

The consolidated financial statements of Eversholt UK Rails (Holding) Limited have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. Except for the disaggregation of Eversholt Rail (365) Limited, 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 consolidated 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 Group.

## Notes to the annual financial statements (continued)

for the year ended 31 December 2017

### 2 Basis of Preparation (continued)

#### 2.2 Compliance with International Financial Reporting Standards (continued)

Accordingly, the consolidated financial statements of Eversholt UK Rails (Holding) Limited for the year ended 31 December 2017 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU, except as noted above.

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

#### 2.3 Standards and Interpretations issued by the IASB

During the year, the Group adopted 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 Group'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).

#### 2.4 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 group's immediate parent, Eversholt UK Rails Limited, as its viability is dependent upon the ability of the immediate parent to provide funds for the Group 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 Group has adequate resources to continue for the foreseeable future and on this basis the accounts have been prepared on a going concern basis.

### 3 Summary of significant accounting policies

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

#### 3.1 Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of the assets, but not necessarily legal title, are classified as finance leases. They are recorded at an amount equal to the net investment in the lease less any impairment provisions, within finance lease receivables. All other leases are classified as operating leases.

The net investment in finance leases represents the sum of the minimum payments receivable (gross investment in the lease) discounted at the rate of interest implicit in the lease. The difference between the gross investment in the lease and the net investment in the lease is recorded as unearned finance income.

Income from finance leases is recognised over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

The fair value of fixed rate finance lease receivables is calculated by discounting future minimum lease receivables, using equivalent current interest rates.

Income and expense from operating leases is recognised on a straight-line basis over the lease term.



## **Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

### **3 Summary of significant accounting policies (continued)**

#### **3.2 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 Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

#### **3.3 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. Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Finance income'.

#### **3.4 Income tax**

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

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting year and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the 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 years in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting year. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Group has a legal right to offset.

## Notes to the annual financial statements (continued)

for the year ended 31 December 2017

### 3 Summary of significant accounting policies (continued)

#### 3.5 Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting year. Any resulting exchange differences are included in the Income statement.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

#### 3.6 Property, plant and equipment

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

In the normal course of business, rolling stock and other railway assets are recognised at cost and are depreciated on a straight-line basis over their useful economic lives to their estimated residual value. The useful economic life depends on the class of vehicle and type of asset and ranges from 20 to 40 years. Useful lives and residual values are reviewed at least annually and if there is indication of impairment a loss will be recognised to reduce the carrying value of the asset to its recoverable amount.

In relation to the construction of rolling stock and other railway assets:

- i) Progress payments paid to third parties are capitalised.
- ii) Interest costs are capitalised to the extent that they are incurred in relation to borrowings, which are attributable to the construction of rolling stock and other railway assets and accrue in respect of the year of construction.
- iii) Assets in the course of construction are not depreciated until they are available for use.

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

The depreciation charge is included in the Income statement.

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

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset.

At each reporting date, the Group reviews the carrying value of its rolling stock and railway assets to determine whether there is any indication that the assets have suffered an impairment loss. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. The impairment loss is recognised immediately in the Income statement.

## Notes to the annual financial statements (continued)

for the year ended 31 December 2017

### 3 Summary of significant accounting policies (continued)

#### 3.6 Property, plant and equipment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised immediately in the Income statement. The associated credit is recognised in the Income statement.

#### 3.7 Subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. The Company's investments in subsidiaries are stated at cost less any impairment losses. Any impairment loss recognised in prior years shall be reversed through the Income statement if, and only if, there has been a change in the estimates used to determine the investment in the subsidiary's recoverable amount since the last impairment loss was recognised.

#### 3.8 Financial instruments

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

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. The Group holds the following classes of financial assets:

##### Loans and receivables

Loans and receivables include receivables originated by the Group 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.

##### 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 a three months' maturity from the date of acquisition, and include cash.

##### 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 Group becomes party to the contractual provisions of the instrument. The Group 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.

##### 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.

## **Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

### **3 Summary of significant accounting policies (continued)**

#### **3.8 Financial instruments (continued)**

##### **Impairment of financial assets (continued)**

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 accounts. 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.

##### **Offsetting financial assets and financial liabilities**

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

##### **Derivatives and hedge accounting**

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

Derivative financial instruments are recognised at fair value. Where derivatives do not qualify for hedge accounting the gain or loss on remeasurement to fair value is recognised immediately in the Income statement. However, where derivatives qualify for hedge accounting, the Group recognises the effective part of any gain or loss on the derivative financial instrument in Other comprehensive income, which is accounted for in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income statement.

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

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

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 positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

##### **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).

## **Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

### **3 Summary of significant accounting policies (continued)**

#### **3.8 Financial instruments (continued)**

##### **Determination of fair value (continued)**

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

#### **3.9 Statement of cash flows**

The Statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under 'Operating activities', movements in intercompany transactions are shown under the heading of 'Financing activities'. Such movements arise ultimately from the Group's financing activities, through which the Group will acquire resources intended to generate future income and cash flows.

#### **3.10 Share capital**

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

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

#### **3.11 Maintenance income, costs, deferred income and prepayments**

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

#### **3.12 Retirement benefit obligations**

The Group provides defined benefit and defined contribution schemes on behalf of employees. The defined benefit scheme is funded by contributions partly from the employees and partly from the Group at rates assessed by independent actuaries. These contributions are invested separately from the Group's assets.

## **Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

### **3 Summary of significant accounting policies (continued)**

#### **3.12 Retirement benefit obligations (continued)**

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

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

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

The defined benefit liability recognised in the Statement of financial position represents the fair value of plan assets less present value of defined benefit obligations adjusted for unrecognised past service costs. Any net defined benefit surplus is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

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

#### **3.13 Inventories**

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

#### **3.14 Provisions**

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

#### **3.15 Preference shares**

Preference shares are classified as a non-current liability as the holder of these shares has a fixed entitlement to a dividend. The dividend payable is recorded within finance expense.

#### **3.16 Use of judgements, estimates and assumptions**

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

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

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

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**3 Summary of significant accounting policies (continued)****3.16 Use of judgements, estimates and assumptions (continued)****Critical estimates and assumptions in applying the Group's accounting policies**

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

**Valuation of defined benefit retirement obligation**

In making their estimate of the valuation of the defined benefit retirement obligations the Directors have made a number of assumptions. These assumptions are more fully described in note 28.

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

Notwithstanding this the Group is required to make estimations regarding future leasing opportunities, future cash flows and appropriate discount rates to test that the carrying value of its portfolio of rolling stock assets does not exceed its economic value. As with all long term estimates, these may depend upon the outcome of future events and may need to be revised as circumstances change.

**4 Cost of sales**

	Group	
	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Depreciation	111,647	108,094
Maintenance cost	58,717	54,921
Write down in the value of inventories	206	206
	<b>170,570</b>	<b>163,221</b>

**5 Finance income**

	Group	
	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Bank interest	840	186

**6 Finance expense**

	Group	
	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest payable to Eversholt UK Rails Limited	(25,586)	-
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	(22,437)	(50,085)
Profit participating preference share dividend	(501)	(801)
Interest payable on derivatives	(16,161)	(5,495)
Interest payable on bank loans	(1,552)	(3,258)
Interest payable on bonds	(74,731)	(65,717)
Other finance costs	(2,064)	(1,401)
Unwinding of capitalised borrowing costs	(10,105)	(3,843)
	<b>(153,137)</b>	<b>(130,600)</b>

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**7 Administrative expense**

Administrative expense includes:

	Group	
	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Foreign exchange (loss)/gain	(5)	59
Depreciation – other assets	(318)	(294)
Defined contribution pension costs	(735)	(715)
Fees payable to the Company's auditor for the audit of the Group's annual financial statements	(227)	(204)
Fees payable to the Company's auditor and its associates		
- for non-audit assurance services	(54)	(131)
- for tax related services	-	(2)

**8 Staff numbers and costs**

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

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Directors	3	3
Operations	64	67
Administration	43	39
	<u>110</u>	<u>109</u>

	Group	
	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Wages and salaries	(10,464)	(11,208)
Social security costs	(1,336)	(1,452)
Contributions to defined contribution pension scheme	(735)	(715)
Defined benefit pension scheme service cost	(412)	(323)
	<u>(12,947)</u>	<u>(13,698)</u>

**9 Directors' emoluments**

	Group	
	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Directors' emoluments for services to the Group	(1,969)	(2,166)
Reimbursement of expenses	(2)	(1)
	<u>(1,971)</u>	<u>(2,167)</u>

The emoluments of the highest paid Director, including benefits in kind were £923,928 (2016: £976,148). The accrued pension contributions paid by the Group in respect of the highest paid Director for the year were £nil (2016: £6,740). None of the newly appointed Directors have any share options or interests in the share capital of the Company.



**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**10 Income tax charge**

	Group	
	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Current tax</b>		
UK Corporation tax		
- On current year profit	799	(2,178)
- On prior years profit	(852)	-
	<u>(53)</u>	<u>(2,178)</u>
Overseas Corporation tax		
- On current year profit	-	(5,867)
- On prior year loss	-	7,460
	<u>-</u>	<u>1,593</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(15,754)	(1,120)
Change in tax rates	2,368	1,829
Adjustment in respect of prior year	534	(9,832)
	<u>(12,852)</u>	<u>(9,123)</u>
<b>Income tax charge</b>	<u>(12,905)</u>	<u>(9,708)</u>

The UK tax rate applying to the profits of subsidiaries assessable in the UK was 19.25% (2016: 20%).

The following table reconciles the tax expense which would apply if all profits had been taxed at 19.25% (2016: 20%).

	Group	
	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit before tax	50,271	7,656
Taxation at corporation tax rate 19.25% (2016: 20%)	(9,677)	(1,531)
Change in tax rates	2,368	1,829
Prior years adjustment	(318)	(2,372)
Income not taxable for tax purposes	1,660	688
Effects of taxing overseas profits at different rates	-	(6,412)
Permanent tax differences	(6,938)	(1,910)
<b>Income tax charge</b>	<u>(12,905)</u>	<u>(9,708)</u>

In addition to the amount charged to the Income statement, the aggregate amount of current and deferred tax, relating to components of other comprehensive income, resulted in a £1,452,000 loss recognised in total comprehensive income (2016: £1,326,000 gain).

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

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

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**11 Property, plant and equipment**

	Other assets £'000	Rolling stock and other railway assets £'000	Total £'000
<b>Cost</b>			
Balance at 1 January 2016	3,342	2,346,702	2,350,044
Additions	228	272,149	272,377
Disposals	-	-	-
<b>Balance at 31 December 2016</b>	<b>3,570</b>	<b>2,618,851</b>	<b>2,622,421</b>
Additions	177	248,555	248,732
Disposals	-	-	-
<b>Balance at 31 December 2017</b>	<b>3,747</b>	<b>2,867,406</b>	<b>2,871,153</b>
<b>Depreciation</b>			
Balance at 1 January 2016	2,350	639,287	641,637
Charge for the year	294	108,094	108,388
Disposals	-	-	-
<b>Balance at 31 December 2016</b>	<b>2,644</b>	<b>747,381</b>	<b>750,025</b>
Charge for the year	318	111,647	111,965
Disposals	-	-	-
<b>Balance at 31 December 2017</b>	<b>2,962</b>	<b>859,028</b>	<b>861,990</b>
<b>Carrying value at 31 December 2017</b>	<b>785</b>	<b>2,008,378</b>	<b>2,009,163</b>
Carrying value at 31 December 2016	926	1,871,470	1,872,396

The cost of tangible fixed assets at 31 December 2017 includes capitalised interest of £25,718,165 (2016: £13,023,770). The capitalisation rate used is the rate of interest attaching to the Group's borrowings attributable to the acquisition of rolling stock, see note 20 for more details.

Other assets relate to equipment, fixtures and fittings.

The depreciation charge on rolling stock and other railway assets is included within cost of sales in the Income statement. The depreciation on other assets is included in administrative expense.

All rolling stock and other railway assets, unless off lease, are subject to operating or finance lease arrangements.

**12 Finance lease receivables**

	Group	
	2017 £'000	2016 £'000
Gross investment in finance leases		
<b>Amounts falling due:</b>		
No later than one year	1,403	1,637
Later than one year and no later than five years	7,442	5,546
Later than five years	2,302	3,683
Gross investment in finance leases	11,147	10,866
Unearned finance income	(3,949)	(2,667)
Net investment in finance leases less provisions	7,198	8,199
Amortisation of finance lease receivables:		
<b>Amounts falling due:</b>		
No later than one year	865	1,001
Later than one year and no later than five years	4,168	3,863
Later than five years	2,165	3,335
Present value of minimum lease receivables	7,198	8,199

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**12 Finance lease receivables (continued)**

	Group	
	2017 £'000	2016 £'000
Fair value of amounts receivable under finance leases	<u>7,198</u>	<u>8,199</u>
Aggregate finance lease rentals receivable in the period	<u>635</u>	<u>699</u>

The fair value of fixed rate finance lease receivables is calculated by discounting future minimum lease receivables, using equivalent current interest rates.

The Group has entered into a finance leasing arrangement for one of its depots. This lease is due to expire in 7 years' time.

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

The interest rate inherent in the leases are fixed at the contract date for all of the lease terms. The average effective interest rates contracted are between 6% and 10% (2016: 6% and 10%) per annum.

The maximum exposure to credit risk of finance lease receivables for the current and prior periods is the carrying amount. The finance lease receivables are not past due and not impaired in the current and prior period.

**13 Trade and other receivables**

	Group	
	2017 £'000	2016 £'000
<b>Current</b>		
Trade receivables	11,847	2,584
Maintenance prepayment	30,093	27,094
Other receivables	609	-
	<u>42,549</u>	<u>29,678</u>

**14 Derivative financial instruments**

	Group	
	2017 £'000	2016 £'000
<b>Non-current assets</b>		
Interest rate swap contracts	6,294	9,142
FX forward contract – hedge accounted	27,908	20,416
	<u>34,202</u>	<u>29,558</u>
<b>Current liabilities</b>		
FX forward contract – hedge accounted	-	(153)
<b>Non-current liabilities</b>		
Interest rate swap contracts	(127,557)	(152,989)
Interest rate swap contracts – hedge accounted	(23,914)	(15,344)
	<u>(151,471)</u>	<u>(168,333)</u>
<b>Total derivative financial instruments</b>	<u>(117,269)</u>	<u>(138,928)</u>

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

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**14 Derivative financial instruments (continued)****14.1 Foreign exchange forward contracts**

During the year the Group continued to hold foreign exchange forward contracts and entered into one foreign exchange forward contract to hedge the variability in functional currency equivalent cash flows associated with committed EUR denominated capital expenditure. On inception the contracts were designated in hedge accounting relationships.

**Group**

	Not hedge accounted £'000	Current Hedge Accounted £'000	Terminated Hedge Accounted £'000	Total £'000
<b>Movement in fair value of Derivative financial instruments</b>				
<b>Balance as at 1 January 2017</b>	-	20,416	(153)	20,263
Unrealised (loss)/gain through the income statement	-	(20)	-	(20)
Realised gain through the Income statement	-	-	-	-
Unrealised gain through other comprehensive income	-	7,512	153	7,665
Consideration on termination	-	-	-	-
<b>Balance as at 31 December 2017</b>	-	<b>27,908</b>	-	<b>27,908</b>
<b>Balance as at 1 January 2016</b>	(60)	-	-	(60)
Unrealised (loss)/gain through the income statement	60	1	-	61
Realised gain through the Income statement	-	-	76	76
Unrealised gain through other comprehensive income	-	20,415	5,456	25,871
Consideration on termination	-	-	(5,685)	(5,685)
<b>Balance as at 31 December 2016</b>	-	<b>20,416</b>	<b>(153)</b>	<b>20,263</b>
<b>Movement in Hedging reserve</b>				
<b>Balance as at 1 January 2017</b>	-	(16,817)	(3,569)	(20,386)
Unrealised gain through other comprehensive income	-	(7,512)	(153)	(7,665)
Release to property, plant & equipment	-	-	473	-
Income tax on other comprehensive income	-	1,277	(54)	1,223
<b>Balance as at 31 December 2017</b>	-	<b>(23,052)</b>	<b>(3,303)</b>	<b>(26,355)</b>
<b>Balance as at 1 January 2016</b>	-	-	-	-
Unrealised gain through other comprehensive income	-	(20,415)	(5,456)	(25,871)
Release to property, plant & equipment	-	-	1,319	1,319
Income tax on other comprehensive income	-	3,598	568	4,166
<b>Balance as at 31 December 2016</b>	-	<b>(16,817)</b>	<b>(3,569)</b>	<b>(20,386)</b>

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**14 Derivative financial instruments (continued)****14.1 Foreign exchange forward contracts (continued)**

As at 31 December 2017, the designated hedges were deemed to be highly effective and the fair value asset of the foreign exchange forward contracts was £27,908,113 (31 December 2016: £20,263,323).

The hedging reserve contains balances relating to outstanding and terminated derivative contracts.

During the year, a loss of £473,475 (2016: £1,319,405) was realised in property, plant and equipment additions; the residual gain recognised in other comprehensive income will amortise to property, plant and equipment in line with the payment profile of the hedged capital expenditure.

The foreign exchange forward contracts entered into prior to 2016 were not designated in a hedge accounting relationship.

**14.2 Interest rate swap contracts**

During the year the Group entered into two new swap contracts to hedge its interest rate risk exposure. These swaps are not designated in hedge accounting relationships. As at 31<sup>st</sup> 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).

**Group**

	Not hedge accounted £'000	Current Hedge Accounted £'000	Terminated Hedge Accounted £'000	Total £'000
<b>Movement of fair value in Derivative financial instruments</b>				
<b>Balance as at 1 January 2017</b>	(143,847)	(21,080)	5,736	(159,191)
Unrealised gain/(loss) through the income statement	15,686	(84)	-	15,602
Realised gain through the Income statement	-	-	285	285
Unrealised (loss)/gain through Other comprehensive income	-	(2,750)	877	(1,873)
Consideration (paid)/received on termination	-	-	(6,898)	(6,898)
Impact of repricing for consideration of swap terminated	6,898	-	-	6,898
<b>Balance as at 31 December 2017</b>	<b>(121,263)</b>	<b>(23,914)</b>	<b>-</b>	<b>(145,177)</b>
<b>Balance as at 1 January 2016</b>	(87,944)	-	-	(87,944)
Unrealised gain/(loss) through the income statement	(55,903)	(190)	-	(56,093)
Realised gain through the Income statement	-	-	11,462	11,462
Unrealised (loss)/gain through Other comprehensive income	-	(20,890)	(9,704)	(30,594)
Consideration (paid)/received on termination	-	-	3,978	3,978
Impact of repricing for consideration of swap terminated	-	-	-	-
<b>Balance as at 31 December 2016</b>	<b>(143,847)</b>	<b>(21,080)</b>	<b>5,736</b>	<b>(159,191)</b>

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**14 Derivative financial instruments (continued)****14.2 Interest rate swap contracts (continued)****Group**

	Not hedge accounted £'000	Current Hedge Accounted £'000	Terminated Hedge Accounted £'000	Total £'000
<b>Movement in Hedging reserve</b>				
<b>Balance as at 1 January 2017</b>	-	17,280	7,050	24,330
Unrealised loss/(gain) through other comprehensive income	-	2,750	(877)	1,873
Release to property, plant & equipment	-	-	(769)	(769)
Release to the Income statement	-	-	-	-
Income tax on other comprehensive income	-	(468)	280	(188)
<b>Balance as at 31 December 2017</b>	-	<b>19,562</b>	<b>5,684</b>	<b>25,246</b>
<b>Balance as at 1 January 2016</b>				
<b>Balance as at 1 January 2016</b>	-	-	-	-
Unrealised loss through other comprehensive income	-	20,890	9,704	30,594
Release to property, plant & equipment	-	-	(47)	(47)
Release to the Income statement	-	-	(1,235)	(1,235)
Income tax on other comprehensive income	-	(3,610)	(1,372)	(4,982)
<b>Balance as at 31 December 2016</b>	-	<b>17,280</b>	<b>7,050</b>	<b>24,330</b>

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

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 Group 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.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**15 Deferred tax**

	Group	
	2017 £'000	2016 £'000
Balance at beginning of the year	33,473	25,677
Amount arising from temporary differences:		
- Capital allowances	13,025	12,264
- Movement in provision	(89)	138
- Movement in pension provision	(69)	(43)
- Movement in fair value on derivatives	3,004	(11,240)
Change in tax rates	(2,368)	(1,829)
Other comprehensive expense/(income):		
- actuarial movement on retirement benefit obligations	417	(510)
- movement on hedging reserve	1,035	(816)
Prior year adjustment	(651)	9,832
<b>Balance at end of the year</b>	<b>47,777</b>	<b>33,473</b>

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group	
	2017 £'000	2016 £'000
Deferred tax asset	(30,521)	(32,951)
Deferred tax liability	78,298	66,424
	<b>47,777</b>	<b>33,473</b>

**16 Investments in subsidiary**

	Group	
	2017 £'000	2016 £'000
Cost 1 January and 31 December	2,835	2,835

The investment represents the investment in Eversholt Rail (365) Limited.

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

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage	Ownership Percentage
				2017	2016
Eversholt Investment Limited	Ordinary Shares	Ireland**	Investment	100	100
European Rail Finance Holdings Limited*	Ordinary Shares	Ireland**	Investment	100	100
European Rail Finance Limited*	Ordinary Shares	Ireland**	Leasing	100	100
Eversholt Rail Leasing Limited (formerly trading as European Rail Finance (GB) Limited)*	Ordinary Shares	England***	Leasing	100	100
Eversholt Rail Holdings (UK) Limited*	Ordinary Shares	England***	Investment	100	100
Eversholt Rail Limited (formerly trading as Eversholt Rail (UK) Limited)*	Ordinary Shares	England***	Management services	100	100

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**16 Investments in subsidiary (continued)**

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage	Ownership Percentage
				2017	2016
Eversholt Depot Finance Limited (formerly trading as Eversholt Depot Finance (UK) Limited*	Ordinary Shares	England***	Leasing	100	100
Eversholt Rail (365) Limited*	Ordinary Shares	England***	Leasing	100	100
Eversholt Rail (380) Limited*	Ordinary Shares	England***	Dormant	100	100
Eversholt Finance Holdings Limited*	Ordinary Shares	England***	Investment	100	100
Eversholt Funding plc*	Ordinary Shares	England***	Financing	100	100
European Rail Finance (2) Limited*	Ordinary Shares	Ireland**	Investment	100	100

\* Indirect subsidiaries

\*\* Registered office: Newmount House, 22-24 Mount Street Lower, Dublin 2, Ireland

\*\*\* Registered office: 210 Pentonville Road, London, N1 9JY

The results of Eversholt Rail (365) Limited are excluded from the consolidation, and as such are included as net investments in subsidiary as above.

**17 Inventory**

	Group	
	2017 £'000	2016 £'000
Rolling stock spares	942	1,149

Write down in the value of inventories recognised within cost of sales in the Consolidated income statement is an expense amounting to £206,382 (2016: £206,382). Stock is measured at the lower of cost and net realisable value.

**18 Cash and cash deposits**

Cash and cash deposits are analysed as:

	Group	
	2017 £'000	2016 £'000
Cash	14,605	50,566
Cash demand deposits	80,000	-
<b>Cash and cash equivalents</b>	<b>94,605</b>	<b>50,566</b>
Short-term deposits	250,000	-
<b>Cash and cash deposits</b>	<b>344,605</b>	<b>50,566</b>

Within cash and cash equivalents there is a deposit of £2,600,000 (2016: £26,417,500) which provides security for the Profit Participating Shares issued by a subsidiary. £500,000 of cash and cash equivalents (2016: £500,000) is restricted cash in line with the terms of an agreement with the security trustee for the Group's secured creditors.



**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**19 Trade and other payables**

	Group	
	2017 £'000	2016 £'000
Trade payables	11,667	14,859
Other payables	6,333	3,835
Rentals received in advance	10,829	13,247
Maintenance, acquisition and administrative accruals	29,578	20,764
Interest accrual	592	921
	<u>58,999</u>	<u>53,626</u>

**20 Borrowings**

	Group	
	2017 £'000	2016 £'000
<b>Current</b>		
Bank loans	-	50,000
Interest accrued	21,151	14,999
Transaction costs	(617)	(1,764)
	<u>20,534</u>	<u>63,235</u>
<b>Non-current</b>		
Bonds	1,940,000	1,440,000
Other loan	5,786	5,700
Transaction costs	(5,286)	(9,110)
Profit Participating Shares	2,500	25,000
Loan from Eversholt UK Rails Limited	340,562	-
Loan from Eversholt Investment Group (Luxembourg) Sarl	-	340,562
	<u>2,283,562</u>	<u>1,802,152</u>
	<u>2,304,096</u>	<u>1,865,387</u>

The Bank loans and Bonds impose certain covenants on the performance and management of the Group. Failure to comply with these may result in the Bank loans and Bonds being repayable on demand. The Group was in compliance with the covenants during 2017.

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

None of the Bonds are puttable.

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

The Bank loans are from a syndicate of banks. The loans are fully repayable by November 2022. Interest on these loans is currently charged at LIBOR plus a margin (2016: LIBOR plus a margin).

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%

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**20 Borrowings (continued)**

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

The loan from Eversholt UK Rails Limited is unsecured, and carries a fixed rate of interest. The loan is subordinated to the Bank loan and Bonds in accordance with the terms of a Security Trust and Intercreditor Deed.

The loans with Eversholt Investment Group (Luxembourg) Sarl are no longer outstanding following a reorganisation during the year. The loans were unsecured, and carried a fixed rate of interest. These loans were subordinated to the Bank loan and Bonds in accordance with the terms of a Security Trust and Intercreditor Deed.

**Maturity of borrowings**

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

	Group	
	2017 £'000	2016 £'000
In more than two years but not more than five years	348,643	330,700
In more than five years	1,940,205	1,480,562
	<u>2,288,848</u>	<u>1,811,262</u>

**21 Deferred revenue**

Rentals received in relation to future maintenance costs are deferred and released when these costs are incurred.

	Group	
	2017 £'000	2016 £'000
<b>Current</b>		
Arising in respect of maintenance contracts	3,142	3,290
<b>Non-current</b>		
Arising in respect of maintenance contracts	146,751	123,756
	<u>149,893</u>	<u>127,046</u>

The deferred revenue arises in respect of the Group's obligations in respect of maintenance contracts in certain leases.

**22 Provisions**

	Group	
	2017 £'000	2016 £'000
<b>Current</b>		
Overheads	35	35

Provision for overheads relates to disallowable expenses for tax purposes. All provisions are expected to be utilised within 12 months.

	Total 2017 £'000	Total 2016 £'000
<b>Balance at beginning of the year</b>	35	1,154
Additions	-	244
Provision utilised	-	(1,043)
Provision released	-	(320)
<b>At 31 December</b>	<u>35</u>	<u>35</u>

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**23 Share capital**

	Company	
	2017	2016
	£	£
<b>Authorised</b>		
102 Ordinary shares of £1 each (2016: 102)	<u>102</u>	<u>102</u>
<b>Allotted, called up and fully paid</b>		
102 Ordinary shares of £1 each (2016: 102)	<u>102</u>	<u>102</u>

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

**24 Capital commitments**

In respect of capital expenditure:

	Group	
	2017	2016
	£'000	£'000
Authorised and contracted	<u>746,770</u>	<u>944,227</u>

The above represents all capital commitments.

**25 Finance expenses paid**

	Group	
	2017	2016
	£'000	£'000
Bank loans	(1,622)	(434)
Bonds	(68,451)	(68,132)
Eversholt UK Rails Limited	(23,880)	-
Eversholt Investment Group (Luxembourg) Sarl	(24,143)	(50,085)
Profit participating preference dividends	(793)	(863)
Derivative financial instruments – net interest	(16,261)	(4,966)
Financing costs	(5,132)	(3,393)
Other interest	(1)	486
	<u>(140,283)</u>	<u>(127,387)</u>

Included in financing costs is £1,848,158 of costs which have been capitalised (2016: £1,422,879).

**26 Dividends**

For the year ended 31 December 2017 dividends of £43,040,992 were paid (2016: £14,772,150).

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**27 Financial instruments**

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

<b>Group</b>	<b>Note</b>	<b>Carrying amount</b>		<b>Fair value</b>	
<b>31 December 2017</b>		<b>£'000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
			<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>					
Fair value through profit or loss					
- Derivative financial instruments	14	34,202	-	34,202	-
Loans and receivables					
- Finance lease receivables	12	7,198			
- Trade and other receivables	13	42,549			
Cash and cash equivalents	18	344,605			
<b>Total Financial assets</b>		<b>428,554</b>			
<b>Financial liabilities</b>					
Held to maturity financial instruments					
- Derivative financial instruments	14	151,471	-	151,471	-
Non-derivative instruments – amortised cost					
- Publicly traded bonds	20	1,500,000	1,790,147	-	-
- Fixed rate borrowings	20	340,000	-	364,439	-
- Other borrowings	20	469,999			
- Trade and other payables	19	58,999			
<b>Total Financial liabilities</b>		<b>2,520,469</b>			
<b>Total financial instruments</b>		<b>(2,091,915)</b>			
<b>Group</b>					
<b>31 December 2016</b>	<b>Note</b>	<b>Carrying amount</b>	<b>Level 1</b>	<b>Fair value</b>	<b>Level 3</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>					
Fair value through profit or loss					
- Derivative financial instruments	14	29,558	-	29,558	-
Loans and receivables					
- Finance lease receivables	12	8,199			
- Trade and other receivables	13	29,678			
Cash and cash equivalents	18	50,566			
<b>Total Financial assets</b>		<b>118,001</b>			
<b>Financial liabilities</b>					
Held to maturity financial instruments					
- Derivative financial instruments	14	168,486	-	168,486	-
Non-derivative instruments – amortised cost					
- Publicly traded bonds	20	1,100,000	1,423,790	-	-
- Fixed rate borrowings	20	240,000	-	262,178	-
- Other borrowings	20	536,261			
- Trade and other payables	19	53,626			
<b>Total Financial liabilities</b>		<b>2,098,373</b>			
<b>Total financial instruments</b>		<b>(1,980,372)</b>			

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**28 Retirement benefit obligations****28.1 General description of scheme****Final salary pension**

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

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

Employer contributions for the year ended 31 December 2017 are 19.1% (2016: 19.1%) of Section Pay.

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

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

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

**28.2 Membership data**

	2017	2016
<b>Active members</b>		
Number	17	17
Number with PRP included	11	12
Annual payroll (£'000)	1,294	1,275
PRP included (£'000)	44	48
Average age	50.1	50.8
<b>Deferred members</b>		
Number	50	53
Total deferred pensions (£'000)	360	373
Average age	53.1	52.3
<b>Pensioner members (including dependants)</b>		
Number	49	46
Annual pension payroll (£'000)	1,181	1,142
Average age	66.3	65.4

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**28 Retirement benefit obligations (continued)****28.3 Summary of assumptions**

	2017 %pa	2016 % pa
Discount rate	2.50	2.50
Price inflation (RPI measure)	3.20	3.25
Increases to deferred pensions (CPI measure)	2.20	2.25
Pension increases (CPI measure)	2.20	2.25
Salary increases *	3.20	4.25

\*plus 0.4% pa promotional salary scale.

<b>Section assets</b>	Value at 31 December 2017 £'000	Value at 31 December 2016 £'000
Growth assets	26,821	25,937
Defensive pooled fund	11,491	12,293
Non-government bonds	1,765	706
Other assets	318	40
	<u>40,395</u>	<u>38,976</u>

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

	31 December 2017	31 December 2016
Male currently age 65	23.0	23.4
Male currently age 45	24.8	25.6
Female currently age 65	23.7	24.5
Female currently age 45	25.6	26.9

**28.4 Defined benefit liability at end of year**

	Value at 31 December 2017 £'000	Value at 31 December 2016 £'000
Defined benefit liability at end of year		
Active members	8,388	10,340
Deferred members	11,049	10,997
Pensioner members (incl. dependants)	27,414	27,585
Total DBO	<u>46,851</u>	<u>48,922</u>
Value of assets at end of year	<u>(40,395)</u>	<u>(38,976)</u>
Funded status at end of year	6,456	9,946
Adjustment for the members' share of deficit	<u>(2,582)</u>	<u>(3,978)</u>
<b>Net defined benefit liability at end of year</b>	<u><b>3,874</b></u>	<u><b>5,968</b></u>

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**28 Retirement benefit obligations (continued)**

**28.5 Reconciliation of net defined benefit liability**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Opening net defined benefit liability	5,968	2,763
Employer's share of pension expense	559	420
Employer contributions	(201)	(203)
Total (gain)/loss recognised in Statement of comprehensive income	<u>(2,452)</u>	2,988
<b>Closing net defined benefit liability</b>	<b><u>3,874</u></b>	<b><u>5,968</u></b>

**28.6 Pension charge**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Employer's share of service cost	375	284
Employer's share of administration costs	37	39
Total employer's share of service cost	<u>412</u>	323
Employer's share of net interest on net defined benefit liability	147	97
<b>Employer's share of pension expense</b>	<b><u>559</u></b>	<b><u>420</u></b>

**28.7 Other comprehensive income**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Gain due to liability experience	(370)	(600)
Gain/(loss) due to liability assumption changes	(1,124)	5,695
Return on plan assets greater than discount rate	<u>(958)</u>	<u>(2,107)</u>
<b>Total (gain)/loss recognised in Statement of comprehensive income</b>	<b><u>(2,452)</u></b>	<b><u>2,988</u></b>

**28.8 Reconciliation of defined benefit obligation (DBO)**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Opening defined benefit obligation	48,922	40,300
Service Cost	619	468
Interest Cost	1,206	1,420
Gain on DBO - experience	(644)	(1,030)
(Gain)/loss on DBO – financial assumptions	(1,874)	9,492
Actual benefit payments	<u>(1,378)</u>	<u>(1,728)</u>
<b>Closing defined benefit obligation</b>	<b><u>46,851</u></b>	<b><u>48,922</u></b>

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**28 Retirement benefit obligations (continued)****28.9 Reconciliation of value of assets**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Opening value of Section assets	38,976	35,695
Interest income on assets	960	1,258
Return on plan assets greater than discount rate	1,597	3,511
Employer contributions	201	203
Employee contributions	100	102
Actual benefit payments	(1,378)	(1,728)
Administration costs	(61)	(65)
<b>Closing value of Section assets</b>	<b>40,395</b>	<b>38,976</b>

Tables 28.8 and 28.9 above show the movement in the assets and liabilities of the section as a whole. Some of the figures therefore differ from those in the remaining disclosures which reflect the Company's share of the assets and liabilities associated with the section.

**28.10 DBO sensitivity analysis to significant actuarial assumptions**

Year ended 31 December 2017	Sensitivity	Approximate change in DBO £'000
Discount rate	-0.5 p.a.	4,400
Price inflation (CPI measure)*	+0.5% p.a.	4,300
Salary increases	+0.5% p.a.	400
Life expectancy	+1 year	1,300

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

The sensitivity figures above are as at 31 December 2017 and based on the DBO noted in table 28.4 following the methodology consistent with prior year.

The Section is subject to a full funding actuarial valuation on a triennial basis. The funding valuation at 31 December 2016 indicated a funding surplus and so no deficit contributions are currently being paid. Employer contributions of 19.1% of Section pay (c.£101,000) are expected for the six months ending 30 June 2018. Future rates are, however, subject to review pending the finalisation of the formal actuarial valuation as at 31 December 2016.

The discounted mean term of the Section's liabilities is 18 years.



## **Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

### **29 Risk management**

The Group 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 and foreign exchange. In addition the Group is exposed to residual value risk from its ownership of rail assets and credit risk from leasing arrangements.

Sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 3.16.

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

#### **29.1 Residual value risk**

One of the key drivers of the Group's ability to generate the desired return from its assets is the management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the current lease terms (the "residual values") differ from those projected at the inception of the leases. The Group regularly monitors residual value exposure by reviewing the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let at the end of their current lease terms. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

There has been no change to the Group's exposure to residual value risks or the manner in which these risks are managed and measured.

#### **29.2 Capital risk management**

The Board actively monitors the capital structure of the Group to ensure that all Group entities are able to continue as going concerns. Consideration is given to the availability, cost and risks associated with each class of capital.

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

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

#### **29.3 Credit risk management**

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. The Group's principal credit exposures arise from the obligations of lessees to make lease rental payments and from the ability of bank counterparties to return cash and cash deposits placed with them and meet obligations under the derivative financial instruments.

The Group manages credit risk by way of established risk management processes encompassing credit approvals and the monitoring and reporting of exposures. Regular reviews are undertaken to assess and evaluate the financial stability of counterparties.

No lease receivables are in arrears. All outstanding balances have been recovered subsequent to year end. The Group's principal exposure to credit risk as at 31 December 2017 amounts to the balance of trade receivables as disclosed in note 13, derivative financial instruments assets disclosed in note 14 and cash and cash deposits as disclosed in note 18.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**29 Risk management (continued)****29.4 Liquidity risk management**

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

The Group's cash flow requirements are monitored on a daily basis and comparisons are made for expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In addition to holding cash and cash deposits, the Group has access to a £600m committed revolving credit facility available until 2022, which was undrawn as at 31 December 2017.

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

**Group**

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
<b>31 December 2017</b>						
<b>Financial assets</b>						
<b>Loans and receivables</b>						
Finance lease receivables	7,198	11,147	-	1,403	7,442	2,302
Trade and other receivables	42,549	42,549	-	42,549	-	-
Derivative financial instrument	34,202	14,979	-	3,415	11,564	-
Cash and cash deposits	344,605	344,605	91,505	250,000	-	3,100
	<b>428,554</b>	<b>413,280</b>	<b>91,505</b>	<b>297,367</b>	<b>19,006</b>	<b>5,402</b>
<b>Financial liabilities</b>						
Fair value through profit or loss						
- Derivative financial instruments	151,471	81,798	-	16,978	64,820	-
Other financial liabilities – amortised cost						
- Trade and other payables	58,999	58,999	-	58,999	-	-
- Borrowings	2,309,999	3,128,307	-	98,908	618,565	2,410,834
	<b>2,520,469</b>	<b>3,269,104</b>	<b>-</b>	<b>174,885</b>	<b>683,385</b>	<b>2,410,834</b>
<b>Total financial instruments</b>	<b>(2,091,915)</b>	<b>(2,855,824)</b>	<b>91,505</b>	<b>122,482</b>	<b>(664,379)</b>	<b>(2,405,432)</b>

**Group**

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
<b>31 December 2016</b>						
<b>Financial assets</b>						
<b>Loans and receivables</b>						
Finance lease receivables	8,199	10,866	-	1,637	5,546	3,683
Trade and other receivables	29,678	29,678	-	29,678	-	-
Derivative financial instrument	29,558	16,300	-	2,270	14,030	-
Cash and cash deposits	50,566	50,566	23,651	-	26,915	-
	<b>118,001</b>	<b>107,410</b>	<b>23,651</b>	<b>33,585</b>	<b>46,491</b>	<b>3,683</b>
<b>Financial liabilities</b>						
Fair value through profit or loss						
- Derivative financial instruments	168,486	54,035	-	17,268	36,767	-
Other financial liabilities – amortised cost						
- Trade and other payables	53,626	53,626	-	53,626	-	-
- Borrowings	1,876,261	2,818,942	50,000	83,449	672,939	2,012,554
	<b>2,098,373</b>	<b>2,926,603</b>	<b>50,000</b>	<b>154,343</b>	<b>709,706</b>	<b>2,012,554</b>
<b>Total financial instruments</b>	<b>(1,980,372)</b>	<b>(2,819,193)</b>	<b>(26,349)</b>	<b>(120,758)</b>	<b>(663,215)</b>	<b>(2,008,871)</b>

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2017

**29 Risk management (continued)****29.4 Liquidity risk management (continued)**

Only the derivative financial instruments are measured subsequent to initial recognition at fair value. All derivative financial instruments are grouped into level two, based on the degree to which the fair value is observable. Level two fair value measurements are those derived from inputs other than quoted prices that are observable from active markets either directly or indirectly.

Of the cash and cash equivalents, £3,100,000 relates to cash held on deposit as security for the holders of the PPS in Eversholt Investment Limited (£2,600,000) and for the trustees for the bond holders (£500,000).

**29.5 Market risk****29.5.1 Foreign exchange risk**

The Group hedges against foreign exchange risk on its EUR denominated capital expenditure as described in note 14.

**29.5.2 Interest rate risk management**

The Group is exposed to interest rate risk because entities in the Group borrow funds at fixed and floating interest rates. The risk is managed by the Group to maintain an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with the hedging strategy.

	Group	
	2017	2016
	£'000	£'000
<b>Fixed rate instruments</b>	<u>(2,188,858)</u>	<u>(1,711,262)</u>
<b>Variable rate instruments</b>		
Financial assets	7,198	8,199
Financial liability	<u>(100,000)</u>	<u>(150,000)</u>
	<u>(92,802)</u>	<u>(141,801)</u>

**29.5.3 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 and an increase in cash deposit interest received of £970,736. 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. The sensitivity analysis is applied to the borrowing/deposit rate and performed on the monthly balance of the relevant financial instrument.

**30 Operating lease arrangements**

The Group as lessor:

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

	Group	
	2017	2016
	£'000	£'000
Within one year	316,530	378,450
2-5 years	496,096	707,549
Over 5 years	<u>140,055</u>	<u>198,417</u>
	<u>952,681</u>	<u>1,284,416</u>
Aggregate operating lease rentals receivable in the year	<u>375,945</u>	<u>377,538</u>

## Notes to the annual financial statements (continued)

for the year ended 31 December 2017

### 31 Related-party transactions

#### 31.1 Identity of related parties

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 UK Rails Limited (prior to 22 May 2017 Eversholt Investment Group (Luxemburg) Sarl). 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 Holding Limited may be obtained from the following address:

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

The Group has a related party relationship with its subsidiary Eversholt Rail (365) Limited, the Group's interest in which is not consolidated in these financial statements.

#### 31.2 Transactions with related parties

Loans with Eversholt UK Rails Limited is and Eversholt Investment Group (Luxembourg) Sarl are more fully described in note 20. Interest on these is disclosed in note 6.

The Group received fees of £11,685,000 (2016: £10,579,000) during the year for the provision of maintenance procurement and management services to Eversholt Rail (365) Limited. Amounts owed and payments made to Eversholt Rail (365) Limited are shown in the Consolidated statement of financial position and Consolidated statement of cash flows respectively.

The Group was charged a management service fee of £10,000 (2016: £nil) by Eversholt UK Rails Limited during the year.

#### 31.3 Remuneration of key management personnel

	Group	
	2017 £'000	2016 £'000
Short-term employment benefits	1,635	1,807
Post employment benefits	-	-
Other long-term employment benefits	320	360
	1,955	2,167

Directors' emoluments are disclosed in note 9.

### 32 Contingent liabilities

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

### 33 Subsequent events

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