

Eversholt Funding plc

Unaudited, condensed interim financial statements
for the 6 months ended 30 June 2018

Registered No: 07329930

Condensed interim financial statements

for the 6 months ended 30 June 2018

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Unaudited

Condensed income statement

for the 6 months ended 30 June 2018

	<i>Note</i>	6 months ended	
		30 June 2018 £'000	30 June 2017 £'000
Revenue			
Finance income	4	56,740	48,996
Total revenue		<u>56,740</u>	<u>48,996</u>
Finance expense	5	(57,729)	(50,268)
Net fair value gain on derivative financial instruments	9	9,922	16,910
Gross profit		<u>8,933</u>	<u>15,638</u>
Administrative expense	6	(53)	(63)
Profit before tax		<u>8,880</u>	<u>15,575</u>
Income tax charge		(1,892)	(2,618)
Profit for the period		<u>6,988</u>	<u>12,957</u>

There were no discontinued or discontinuing operations during the period.

The notes on pages 6 to 11 form an integral part of these financial statements.

Condensed statement of comprehensive income

for the 6 months ended 30 June 2018

	<i>Note</i>	6 months ended	
		30 June 2018 £'000	30 June 2017 £'000
Profit for the period		6,988	12,957
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges	9	10,875	13,994
Realised loss on cash flow hedged to property, plant and equipment	9	443	318
Tax charge on effective portion of changes in fair value of cash flow hedges	7	(1,924)	(2,433)
		<u>9,394</u>	<u>11,879</u>
Profit for the period		<u>16,382</u>	<u>24,836</u>

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

Condensed statement of financial position

as at 30 June 2018

	Note	30 June 2018 £'000	31 December 2017 £'000
Assets			
Non-current assets			
Deferred tax	7	23,410	27,021
Derivative financial instruments	9	1,826	6,294
Amounts owed by group undertakings	8	1,940,000	1,940,000
		<u>1,965,236</u>	<u>1,973,315</u>
Current assets			
Amounts owed by group undertakings	8	20,774	21,151
Cash and cash equivalents	10	500	501
Current tax		103	-
Trade and other receivables		-	67
		<u>21,377</u>	<u>21,719</u>
Total assets		<u>1,986,613</u>	<u>1,995,034</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	11	25	233
Current tax		-	1,607
Borrowings	12	20,273	20,534
		<u>20,298</u>	<u>22,374</u>
Non-current liabilities			
Borrowings	12	1,934,778	1,934,714
Amounts owed to group undertakings	8	32,633	30,159
Derivative financial instruments	9	126,206	151,471
		<u>2,093,617</u>	<u>2,116,344</u>
Total liabilities		<u>2,113,915</u>	<u>2,138,718</u>
Equity			
Share capital		50	50
Accumulated deficit		(111,500)	(118,488)
Hedging reserve		(15,852)	(25,246)
Total equity		<u>(127,302)</u>	<u>(143,684)</u>
Total equity and liabilities		<u>1,986,613</u>	<u>1,995,034</u>

The notes on pages 6 to 11 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 17 September 2018. They were signed on its behalf by:



A J Wesson
Director

Company registration number: 07329930

Condensed statement of cash flows

for the 6 months ended 30 June 2018

	Note	6 months ended	
		30 June 2018 £'000	30 June 2017 £'000
Cash flow from operating activities			
Profit before tax		8,880	15,575
Adjustments for:			
- Finance expense		57,729	50,268
- Finance income		(56,740)	(48,996)
- Fair value adjustment on derivative financial instruments		(9,922)	(16,910)
Operating cash flow before changes in working capital		(53)	(63)
Decrease in trade and other payables		(208)	(370)
Decrease in trade and other receivables		67	-
Cash utilised in operating activities		(194)	(433)
Payment in respect of group relief		(1,916)	-
Net cash utilised in operating activities		(2,110)	(433)
Cash flow from investing activities			
Amounts borrowed by group entities		-	(50,000)
Net cash utilised in investing activities		-	(50,000)
Cash flow from financing activities			
Movement in working capital loan with Eversholt Rail Limited		2,917	589
Borrowings raised		-	50,000
Interest received on loan to Eversholt Rail Limited		56,740	48,996
Interest paid on bonds		(49,138)	(40,473)
Interest paid on bank loans		-	(100)
Interest paid on swaps		(7,980)	(8,179)
Other finance expense		(430)	(675)
Net cash generated by financing activities		2,109	50,158
Net decrease in cash and cash equivalents		(1)	(275)
Cash and cash equivalents at beginning of the period		501	791
Cash and cash equivalents at end of the period	10	500	516

Condensed statement of changes in equity

for the 6 months ended 30 June 2018

	Note	Share capital £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2017		50	(24,330)	(130,146)	(154,426)
Profit for the year		-	-	11,658	11,658
Effective portion of changes in fair value of cash flow hedges	9	-	(1,873)	-	(1,873)
Realised gain on cash flow hedged to property, plant and equipment	9	-	769	-	769
Tax credit on changes in effective portion of changes in fair value of cash flow	7	-	188	-	188
Total comprehensive (expense)/income		-	(916)	11,658	10,742
Balance at 31 December 2017		50	(25,246)	(118,488)	(143,684)
Profit for the period		-	-	6,988	6,988
Effective portion of changes in fair value of cash flow hedges	9	-	10,875	-	10,875
Realised gain on cash flow hedged to property, plant and equipment	9	-	443	-	443
Tax charge on changes in effective portion of changes in fair value of cash flow	7	-	(1,924)	-	(1,924)
Total comprehensive income		-	9,394	6,988	16,382
Balance at 30 June 2018		50	(15,852)	(111,500)	(127,302)

Notes to the condensed interim financial statements

for the 6 months ended 30 June 2018

1 General information

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

2 Basis of preparation

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

2.1 Compliance with International Financial Reporting Standards

The financial statements of Eversholt Funding plc have been prepared on the historical cost basis except for the revaluation of derivative financial instruments.

The condensed interim financial report has been prepared in accordance with *IAS 34 Interim Financial Reporting* as adapted by the European Union. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Company since the last annual financial statements as at and for year ended 31 December 2017. The condensed interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the financial statements for the year ended 31 December 2017.

2.2 Going concern

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

3 Summary of significant accounting policies

The accounting policies applied by the Company in this condensed interim financial report are the same as those applied by the Company in its financial statements for the year ended 31 December 2017.

4 Finance income

	6 months ended	
	30 June 2018	30 June 2017
	£'000	£'000
Interest receivable from Eversholt Rail Limited	<u>56,740</u>	<u>48,996</u>

5 Finance expense

	6 months ended	
	30 June 2018	30 June 2017
	£'000	£'000
Interest payable on bank loans	-	(71)
Interest payable on derivative financial instruments	(7,835)	(8,023)
Interest payable on bonds	(48,906)	(40,895)
Interest payable to Eversholt Rail Limited	(988)	(1,279)
	<u>(57,729)</u>	<u>(50,268)</u>

Notes to the condensed interim financial statements (continued)

for the 6 months ended 30 June 2018

6 Administrative expense

Administrative expenses include the following:

	6 months ended	
	30 June 2018	30 June 2017
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	(26)	(25)

The Company has no employees and hence no staff costs (6 months ended 30 June 2017: nil).

7 Deferred tax asset

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

	30 June 2018 £'000	31 December 2017 £'000
Balance at beginning of the period/year	27,021	29,486
Amount arising from temporary differences on derivatives	(1,886)	(3,004)
Change in tax rates	199	351
Income tax (charge)/credit on other comprehensive income/expense	(1,924)	188
Balance at end of the period/year	<u>23,410</u>	<u>27,021</u>

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

The deferred tax at 30 June 2018 has been calculated based on the rate of 17% (31 December 2017: 17%) substantively enacted at the reporting date. The effect of the change in the rate to 17% is included in the financial statements.

8 Amounts owed by/(to) group undertakings

	30 June 2018 £'000	31 December 2017 £'000
Current assets		
Intercompany accrued interest	<u>20,774</u>	<u>21,151</u>
Non-current assets		
Eversholt Rail Limited	<u>1,940,000</u>	<u>1,940,000</u>
	<u>1,960,774</u>	<u>1,961,151</u>

The terms of these loans mirror the terms of the Company's external debt described in note 12.

Non-current liabilities

Eversholt Rail Limited	<u>(32,633)</u>	<u>(30,159)</u>
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The intragroup working capital loan with Eversholt Rail Limited is classified as non-current as it is repayable on or before 4 November 2022. Borrowing entities may prepay and redraw loans until the repayment date. Interest on the loan is payable monthly at a floating rate, which substantially matches the rate of the Group's senior debt, plus margin (2017: Group's senior debt, plus margin).

Notes to the condensed interim financial statements (continued)

for the 6 months ended 30 June 2018

9 Derivative financial instruments

	30 June 2018 £'000	31 December 2017 £'000
Non-current assets		
Interest rate swap contracts	<u>1,826</u>	<u>6,294</u>
Non-current liabilities		
Interest rate swap contracts	(113,291)	(127,557)
Interest rate swap contracts – hedge accounted	<u>(12,915)</u>	<u>(23,914)</u>
	<u>(126,206)</u>	<u>(151,471)</u>
Total derivative financial instruments	<u>(124,380)</u>	<u>(145,177)</u>

As at 30 June 2018, the company's hedge accounted swaps were deemed to be highly effective and the fair value liability associated to these interest rate swaps was £12,914,860 (31 December 2017: £23,914,501).

Certain bond agreements include contractual obligations to settle cross-currency derivative financial instruments, that the lender has entered into pursuant to the bonds, in the event that the Company either defaults on or repays the bonds before maturity. The embedded derivatives resulting from such arrangements have been valued at £nil (2017: £nil) on the basis that the Company is not in default and is not forecast to be in default or repay bonds early.

	Not hedge accounted £'000	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Movement of fair value in Derivative financial instruments				
Balance as at 1 January 2018	(121,263)	(23,914)	-	(145,177)
Unrealised gain through the income statement	9,798	124	-	9,922
Unrealised gain through other comprehensive income	-	10,875	-	10,875
Balance as at 30 June 2018	<u>(111,465)</u>	<u>(12,915)</u>	-	<u>(124,380)</u>
Balance as at 1 January 2017	(143,848)	(21,080)	5,736	(159,192)
Unrealised gain/(loss) through the income statement	15,687	(84)	-	15,603
Realised gain through the income statement	-	-	285	285
Unrealised (loss)/gain through other comprehensive income	-	(2,750)	877	(1,873)
Consideration paid on termination	-	-	(6,898)	(6,898)
Impact of repricing for consideration of swap terminated	6,898	-	-	6,898
Balance as at 31 December 2017	<u>(121,263)</u>	<u>(23,914)</u>	-	<u>(145,177)</u>

Notes to the condensed interim financial statements (continued)

for the 6 months ended 30 June 2018

9 Derivative financial instruments (continued)

	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Movement in Hedging reserve			
Balance as at 1 January 2018	19,562	5,684	25,246
Unrealised gain through other comprehensive income	(10,875)	-	(10,875)
Release to property, plant & equipment	(241)	(202)	(443)
Income tax charge on other comprehensive income	1,890	34	1,924
Balance as at 30 June 2018	<u>10,336</u>	<u>5,516</u>	<u>15,852</u>
Balance as at 1 January 2017	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)
Income tax (credit)/charge on other comprehensive expense/income	(468)	280	(188)
Balance as at 31 December 2017	<u>19,562</u>	<u>5,684</u>	<u>25,246</u>

During the previous 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 30 June 2018 the Company held interest rate swaps with a fair value of £111,464,515 (liability) (31 December 2017: £121,263,000) which were not designated in hedging relationships for accounting purposes.

The fair value of derivative financial instruments is based on market rates at 30 June 2018.

10 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	30 June 2018 £'000	31 December 2017 £'000
Bank balances	<u>500</u>	<u>501</u>

£500,000 (31 December 2017: £500,000) of cash and cash equivalents is restricted cash in accordance with the terms of the agreement with the security trustee for the Company's secured creditors.

11 Trade and other payables

	30 June 2018 £'000	31 December 2017 £'000
Fees and other payables accrued	<u>25</u>	<u>233</u>

Notes to the condensed interim financial statements (continued)

for the 6 months ended 30 June 2018

12 Borrowings

	30 June 2018 £'000	31 December 2017 £'000
Current		
Interest accrued	20,774	21,151
Transaction costs	(501)	(617)
	<u>20,273</u>	<u>20,534</u>
Non-current		
Bonds	1,940,000	1,940,000
Transaction costs	(5,222)	(5,286)
	<u>1,934,778</u>	<u>1,934,714</u>
	<u>1,955,051</u>	<u>1,955,248</u>

Bond principal amount	Due date	Annual Interest rate Semi-annual coupon
£300m	2020	5.8%
£400m	2025	6.4%
£400m	2021-2035	6.7%
£100m	2029-2036	LIBOR+margin
£90m	2030	Fixed rate
£50m	2028-2036	Fixed rate
£100m	2026-2031	Fixed rate
£100m	2037	Fixed rate
£400m	2034-2042	3.5%

None of the Bonds are puttable

Bank loans and Bond agreements impose certain covenants on the performance and management of the Eversholt UK Rails (Holding) Limited Group (Security group) ("Security group"). Failure to comply with these covenants may result in the loans being repayable on demand. The Security group was in compliance with these covenants during the period ended 30 June 2018.

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

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

Maturity of borrowings

The maturity profile of the carrying amount of the Company's non-current borrowings at 30 June 2018 was as follows:

	30 June 2018 £'000	31 December 2017 £'000
In more than two years but not more than five years	342,857	342,857
In more than five years	1,597,143	1,597,143
	<u>1,940,000</u>	<u>1,940,000</u>

Notes to the condensed interim financial statements (continued)

for the 6 months ended 30 June 2018

13 Fair value of financial assets and liabilities

	Carrying amount 30 June 2018 £'000	Fair value 30 June 2018 £'000	Carrying amount 31 December 2017 £'000	Fair value 31 December 2017 £'000
Financial assets				
Intercompany loans receivable	<u>1,500,000</u>	<u>1,724,165</u>	<u>1,500,000</u>	<u>1,790,147</u>
Financial liabilities				
Publicly traded bonds	<u>1,500,000</u>	<u>1,724,165</u>	<u>1,500,000</u>	<u>1,790,147</u>

Except as disclosed above, there are no material differences between the carrying value and the fair value of financial assets and liabilities as at 30 June 2018.

14 Related party transactions

The company has loan accounts with fellow subsidiaries which are more fully described in note 8. Interest on these accounts is more fully described in notes 4 and 5.

The Company paid management fees of £7,500 (6 months ended 30 June 2017: £nil) to Eversholt Rail Limited. The Company paid no management fees to Eversholt Investment Ltd (6 months ended 30 June 2017: received refund of £10,000).

The Company transferred borrowing related transaction costs of £174,102 (6 months ended 30 June 2017: £798,128) to Eversholt Rail Leasing Limited, £nil (6 months ended 30 June 2017: £5,630) to Eversholt Depot Finance Limited and £nil (6 months ended 30 June 2017: £39,413) to Eversholt Rail Holdings (UK) Limited.

15 Contingent liabilities

There were no contingent liabilities for the Company at 30 June 2018.

16 Subsequent events

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