

# **European Rail Finance (GB) Limited**

**Annual report and financial statements**  
for the year ended 31 December 2016

**Registered No: 02720809**

European Rail Finance (GB) Limited

**Annual report and financial statements**

for the year ended 31 December 2016

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## **Strategic report**

for the year ended 31 December 2016

### **Business review**

European Rail Finance (GB) Limited (the "Company") is a company incorporated and domiciled in England and Wales under the Companies Act. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 25.

The Company receives income from the leasing of rolling stock and other assets. Eversholt Rail (UK) Limited, a subsidiary company, provides asset management and administrative services to the Company, charging an annual management fee.

During the year the Company entered into FX forward deals to hedge cash flow risk associated with the fluctuations in foreign exchange rates on payments for new build rolling stock. Details of new build additions and derivative transactions are more fully described in note 14.

In December 2015 the Company acquired assets and trade from another group undertaking, Eversholt Rail (380) Limited. On the same date the Company entered into a finance lease arrangement with another group undertaking, European Rail Finance Limited. In April 2016 the Company prepaid the rental obligations under the finance lease and there is no further finance lease obligation outstanding to European Rail Finance Limited. Details of both transactions are more fully described in notes 11 and 15.

The business continues to be funded principally by a group undertaking through borrowings. The Company has no employees.

### **Risk management**

The Company 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 22 of the financial statements.

The principal business risk for the Company is in respect of the residual value of its operating lease assets. The Company seeks to maximise the reletting 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 every six months of the commercial value of all operating lease assets, measured as the present value of the net anticipated cashflows arising from ownership over the life of the assets. This assessment provides a basis for measuring the success of the Company 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 asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Company has an excellent knowledge of the current condition of its fleets.

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

**Strategic report (continued)**  
for the year ended 31 December 2016

**Performance**

The Company's results for the year are as detailed in the Income statement on page 9.

The Group is financed by a mix of equity and senior debt. The terms of senior debt require compliance with certain covenants and ratios which are calculated and forecast as part of monthly internal management reporting. In addition to key financial measures, the Group 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.

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

Signed on behalf of the Board by:



**M B Kenny**

Director

Registered Office

210 Pentonville Road

London

N1 9JY

United Kingdom

Date: 13 February 2017

## **Directors' report**

for the year ended 31 December 2016

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2016.

### **Future developments**

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

### **Dividends**

On 14 December 2016 the Directors declared a dividend of £36,000,000 (2015: £nil). 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 a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions.

### **Directors**

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

W Barnes  
D Chan  
A J Course  
A Haines  
A Hunter  
H L Kam  
M B Kenny  
K L Ludeman  
D Macrae  
D G Stickland      Resigned 20 July 2016  
A J Wesson          Appointed 20 July 2016

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. The Directors have no interest in the share capital of the Company, their interest in the holding company is more fully described in note 25.

### **Capital and risk management**

The Company is not subject to externally imposed capital requirements and is dependent on the Group to provide necessary capital resources which are therefore managed on a group basis.

It is the Group's objective to maintain a strong capital base to support the development of its business.

The Company's risk management is more fully described in the Strategic report.

**Directors' report (continued)**

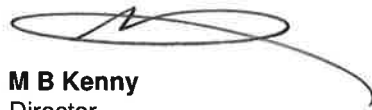
for the year ended 31 December 2016

**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. This confirmation is given pursuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

**Auditor**

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



**M B Kenny**  
Director

Registered Office  
210 Pentonville Road  
London  
N1 9JY  
United Kingdom  
Date: 13 February 2017

## Statement of Directors' responsibilities

for the year ended 31 December 2016

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

The Company's annual financial statements were approved by the Board of Directors on 13 February 2017 and signed on their behalf by:



**M B Kenny**  
Director

Registered Office  
210 Pentonville Road  
London  
N1 9JY  
United Kingdom

## **Independent Auditor's Report to the Members of European Rail Finance (GB) Limited**

for the year ended 31 December 2016

We have audited the financial statements of European Rail Finance (GB) Limited for the year ended 31 December 2016, which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of cash flows, the Statement of changes in equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Director's responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic report and the Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

As explained in note 2 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the IASB and are effective.

In our opinion the financial statements comply with IFRSs as issued by the IASB.



**Independent Auditor's Report to the Members of European Rail Finance (GB) Limited (continued)**

for the year ended 31 December 2016

**Opinion on other matters prescribed by the Companies Act 2006**

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

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

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

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

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

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



Makhan Chahal (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
2 New Street Square, London, EC4A 3BZ  
United Kingdom

BA February 2017

European Rail Finance (GB) Limited

**Income statement**

as at 31 December 2016

	<i>Note</i>	2016 £'000	2015 £'000
<b>Revenue</b>			
Operating lease income	4	352,638	168,686
Other income		117	4,986
Service charge income		110	110
<b>Total revenue</b>		<u>352,865</u>	<u>173,782</u>
Cost of sales	5	(181,876)	(146,901)
<b>Gross profit</b>		<u>170,989</u>	<u>26,881</u>
Finance expense	6	(92,104)	(6,256)
Net fair value gain on derivatives		77	-
Administrative expense	7	(19,120)	(2,204)
Profit on disposal of property, plant and equipment		-	3,252
<b>Profit before tax</b>		<u>59,842</u>	<u>21,673</u>
Income tax charge	9	(5,801)	(1,476)
<b>Profit for the year</b>		<u>54,041</u>	<u>20,197</u>

There were no discontinued or discontinuing operations during the year.

The notes on pages 13 to 29 form an integral part of these financial statements

**Statement of comprehensive income**

for the year ended 31 December 2016

	<i>Note</i>	2016 £'000	2015 £'000
Profit for the year		54,041	20,197
Effective portion of changes in fair value of cash flow hedges	14	26,024	-
Realised gain on cash flow hedges	14	(1,319)	-
Income tax on other comprehensive income	19	(4,192)	-
<b>Total comprehensive income for the year</b>		<u>74,554</u>	<u>20,197</u>

**Statement of financial position**

as at 31 December 2016

	<i>Note</i>	2016 £'000	2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>11</i>	2,189,198	2,037,870
Trade and other receivables	<i>12</i>	-	4,908
Investments in subsidiaries	<i>13</i>	34,348	34,348
Derivative financial instruments	<i>14</i>	20,416	-
		<u>2,243,962</u>	<u>2,077,126</u>
<b>Current assets</b>			
Trade and other receivables	<i>12</i>	1,660	2,900
Current tax		14,081	-
		<u>15,741</u>	<u>2,900</u>
<b>Total assets</b>		<u><b>2,259,703</b></u>	<u><b>2,080,026</b></u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Obligations under finance lease	<i>15</i>	-	5,890
Trade and other payables	<i>16</i>	36,933	16,126
Deferred revenue	<i>17</i>	3,290	3,176
Borrowings	<i>18</i>	52,243	-
		<u>92,466</u>	<u>25,192</u>
<b>Non-current liabilities</b>			
Obligations under finance lease	<i>15</i>	-	1,566,570
Deferred revenue	<i>17</i>	111,800	99,448
Borrowings	<i>18</i>	1,883,271	278,217
Deferred tax	<i>19</i>	62,632	39,619
		<u>2,057,703</u>	<u>1,983,854</u>
<b>Total liabilities</b>		<u><b>2,150,169</b></u>	<u><b>2,009,046</b></u>
<b>Equity</b>			
Share capital	<i>20</i>	50,000	50,000
Hedging reserve		20,513	-
Retained earnings		39,021	20,980
<b>Total equity</b>		<u><b>109,534</b></u>	<u><b>70,980</b></u>
<b>Total equity and liabilities</b>		<u><b>2,259,703</b></u>	<u><b>2,080,026</b></u>

The notes on pages 13 to 29 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 13 February 2017. They were signed on its behalf by:

**A J Wesson**  
Director

Company registration number 02720809

**Statement of cash flows**

for the year ended 31 December 2016

	<i>Note</i>	2016 £'000	2015 £'000
<b>Cash flow from operating activities</b>			
Profit before tax		59,842	21,673
Adjustments for:			
- Depreciation charge	11	120,821	11,626
- Profit on disposal of property, plant and equipment		-	(3,252)
- Finance expense	6	92,104	6,256
- Gain on fair value of derivative financial instruments		(77)	-
<b>Operating cash flow before changes in working capital</b>		<b>272,690</b>	<b>36,303</b>
(Decrease)/increase in obligations under finance lease		(1,572,460)	1,572,460
Decrease in trade and other receivables		6,148	948
Increase/(decrease) in deferred revenue		12,466	(13,355)
Increase /(decrease) in trade and other payables		20,807	(1,088)
<b>Cash flow (utilised in)/generated by operating activities</b>		<b>(1,260,349)</b>	<b>1,595,268</b>
Taxation paid		(1,060)	(6,358)
<b>Net cash (utilised in)/generated by operating activities</b>		<b>(1,261,409)</b>	<b>1,588,910</b>
<b>Cash flow from investing activities</b>			
Acquisition of property, plant and equipment		(273,468)	(97,284)
Acquisition of property, plant and equipment from another group undertaking		-	(1,741,922)
Transfer of net liabilities from another group undertaking		-	85,640
Proceeds from disposal of property, plant and equipment		-	6,910
<b>Net cash utilised in investing activities</b>		<b>(273,468)</b>	<b>(1,746,656)</b>
<b>Cash flow from financing activities</b>			
Loan raised from Eversholt Rail (UK) Limited		1,545,661	-
Cash received on derivative termination		5,684	-
Finance expense paid		(92,104)	(6,256)
Movement in working capital loan with Eversholt Rail (UK) Limited		111,540	163,907
Dividends paid		(36,000)	-
Other interest		96	95
<b>Net cash generated by financing activities</b>		<b>1,534,877</b>	<b>157,746</b>
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		-	-
<b>Cash and cash equivalents at end of the year</b>		<b>-</b>	<b>-</b>

European Rail Finance (GB) Limited

**Statement of changes in equity**

for the year ended 31 December 2016

	<i>Note</i>	<b>Share capital</b> £'000	<b>Hedging reserve</b> £'000	<b>Retained earnings</b> £'000	<b>Total equity</b> £'000
Balance at 1 January 2015	<b>20</b>	50,000	-	783	50,783
Profit for the year		-	-	20,197	20,197
<b>Balance at 31 December 2015</b>		<b>50,000</b>	-	<b>20,980</b>	<b>70,980</b>
Profit for the year		-	-	54,041	54,041
Dividend paid	<b>10</b>	-	-	(36,000)	(36,000)
Effective portion of changes in fair value of cash flow hedges	<b>14</b>	-	26,024	-	26,024
Realised gain on cash flow hedges	<b>14</b>	-	(1,319)	-	(1,319)
Income tax on other comprehensive income	<b>19</b>	-	(4,192)	-	(4,192)
<b>Balance at 31 December 2016</b>		<b>50,000</b>	<b>20,513</b>	<b>39,021</b>	<b>109,534</b>

Dividends per share paid during the year is £0.72 (2015: £nil) per share.

## Notes to the annual financial statements

for the year ended 31 December 2016

### 1 General Information

European Rail Finance (GB) Limited (the "Company") is a private company incorporated and domiciled in England and Wales under the Companies Act and is limited by authorised shares (see note 20). 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 European Rail Finance (GB) Limited have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of the Company for the year ended 31 December 2016 are prepared in accordance with IFRSs as issued by the IASB.

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.

The Company is exempt from the requirement to prepare consolidated financial statements by virtue of Section 400 of the Companies Act 2006. The financial statements present information about the company as an individual undertaking.

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

During the year, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements. At 31 December 2016, a number of standards and amendments to standards have been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2016. The following Adopted IFRSs have been issued but have not been applied by the Company in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (mandatory for periods beginning on or after 1 January 2018).
- Amendments to IAS 7 (January 2016) Disclosure Initiative (mandatory for periods beginning on or after 1 January 2017).
- IFRS 16 Leases (mandatory for periods beginning on or after 1 January 2019).
- 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).
- Clarifications to IFRS 15 (April 2016) Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2018).

## Notes to the annual financial statements (continued)

for the year ended 31 December 2016

### 2 Basis of Preparation (continued)

#### 2.3 Going concern

The financial statements have been assessed in conjunction with its immediate parent, European Rail Finance Holdings Limited, as its viability is dependent upon the ability of the Group companies to provide funds for the Company when required. As a result and having made appropriate enquiries, reviewed forecasts and having the commitment of support from the parent, the Directors consider it reasonable to assume that the Company has adequate resources to continue for the foreseeable future and on this basis the accounts have been prepared on a going concern basis.

### 3 Summary of significant accounting policies

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

#### 3.1 Finance expense

Finance expense for all interest bearing financial instruments is recognised in '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 year.

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

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

#### 3.2 Borrowing costs

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.

Other borrowing costs are recognised in profit and loss in the year in which they are incurred.

#### 3.3 Income tax

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

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the 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 year.

## Notes to the annual financial statements (continued)

for the year ended 31 December 2016

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

#### 3.4 Property, plant and equipment

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 bi-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.

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 Company 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 impaired loss is recognised immediately in the Income statement.

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.

#### 3.5 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.



## Notes to the annual financial statements (continued)

for the year ended 31 December 2016

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

#### 3.6 Financial instruments

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

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 Company holds the following classes of financial assets.

##### 3.6.1 Loans and receivables

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

##### 3.6.2 Cash and cash equivalents

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

##### 3.6.3 Financial liabilities

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

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

##### 3.6.4 Impairment of financial assets

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

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the Income statement. The carrying amount of impaired loans on the Statement of financial position is reduced through the use of impairment allowance 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.

## Notes to the annual financial statements (continued)

for the year ended 31 December 2016

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

#### 3.6 Financial instruments (continued)

##### 3.6.5 Derivatives and hedge accounting

The Company enters into a variety of derivative financial instruments to manage its exposure to 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 Company recognises the effective part of any gain or loss on the derivative financial instrument in Other comprehensive income, which is accounted for in the Hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income statement.

When the hedging relationship ends the hedging gain or loss recognised in Other comprehensive income is reclassified to the Income statement when the hedged item is recognised in the Income statement. When the hedged item 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.

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.

##### 3.6.6 Determination of fair value

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

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

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

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

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy are recognised at the end of the reporting year during which the change occurred.

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

for the year ended 31 December 2016

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

#### **3.6 Financial instruments (continued)**

##### **3.6.7 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.

#### **3.7 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 Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

#### **3.8 Share capital**

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

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

#### **3.9 Use of assumptions and estimates**

In the application of the Company's accounting policy, the Directors 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 ongoing 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.

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

Depreciation is recognised so as to write down the cost of assets over their useful lives. In making their judgement of the useful life, management have considered the effect of wear and tear and planned maintenance on the assets.

#### **3.10 Maintenance income and costs**

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 of 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.

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

for the year ended 31 December 2016

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

**3.11 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease income is recognised on a straight line basis over the lease term.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the Income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's policy on borrowing costs. Contingent rentals are recognised as expenses in the year in which they are incurred.

Finance charges in respect of assets acquired under finance leases are charged to the Income statement over the year of the lease so as to give a constant periodic rate of finance cost. The capital element of the obligation to make future payments is included in liabilities.

**4 Operating lease income**

	2016 £'000	2015 £'000
Rentals receivable from third parties	<u>352,638</u>	<u>168,686</u>

**5 Cost of sales**

	2016 £'000	2015 £'000
Operating lease rental to European Rail Finance Limited	-	(93,439)
Depreciation	(120,821)	(11,626)
Maintenance cost	(61,055)	(41,836)
	<u>(181,876)</u>	<u>(146,901)</u>

**6 Finance expense**

	2016 £'000	2015 £'000
Interest payable to Eversholt Rail (UK) Ltd	(64,423)	(6,170)
Interest expense on finance lease with European Rail Finance Limited	(25,921)	-
Finance charges payable to Eversholt Funding plc	(1,752)	(86)
Other interest	(8)	-
	<u>(92,104)</u>	<u>(6,256)</u>

**7 Administrative expense**

Administrative expense includes the following:

	2016 £'000	2015 £'000
Management fees payable to Eversholt Rail (UK) Limited	(18,740)	(2,128)
Management fees payable to Eversholt Investment Limited	(60)	(10)
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	(37)	(16)

The Company has no employees and hence no staff costs (2015: nil).

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

for the year ended 31 December 2016

**8 Directors' emoluments**

Four of the Directors have been remunerated by Eversholt Rail (UK) Limited at a cost of £2,049,000 (2015: £2,390,000). No specific charge has been made to the Company in this regard.

Two of the Directors have been remunerated by the Company at a cost of £128,631 (2015: £34,065).

Five of the Directors have been remunerated by Cheung Kong Infrastructure. No specific charge has been made to the Company in this regard.

**9 Income tax charge**

	2016 £'000	2015 £'000
<b>Current tax</b>		
UK Corporation tax on current year profit	1,653	1,402
Adjustment in respect of prior year	11,368	(83)
	<u>13,021</u>	<u>1,319</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(9,351)	(2,860)
Adjustment in respect of prior year	(9,471)	65
	<u>(18,822)</u>	<u>(2,795)</u>
<b>Income tax charge</b>	<u>(5,801)</u>	<u>(1,476)</u>

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

	2016 £'000	2015 £'000
Taxation at corporation tax rate of 20% (2015: 20.25%)	(11,968)	(4,388)
Change in tax rate	4,270	2,920
Adjustment in respect of prior year	1,897	(18)
Amounts not deductible for tax purposes	-	10
<b>Income tax charge</b>	<u>(5,801)</u>	<u>(1,476)</u>

**10 Dividends**

For the year ended 31 December 2016 the Company received no dividend income (2015: £nil).

For the year ended 31 December 2016 a dividend of £36,000,000 has been paid to European Rail Finance Holdings Limited (2015: £nil).

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

for the year ended 31 December 2016

**11 Property, plant and equipment**

	<b>Rolling stock and other railway assets £'000</b>
<b>Cost</b>	
<b>Balance at 1 January 2015</b>	290,794
Additions	97,284
Disposals	(7,900)
Acquisitions from other group undertakings	1,741,922
<b>Balance at 31 December 2015</b>	<b>2,122,100</b>
Additions	272,149
Disposals	-
<b>Balance at 31 December 2016</b>	<b>2,394,249</b>
<b>Depreciation</b>	
<b>Balance at 1 January 2015</b>	76,846
Charge for the year	11,626
Disposals	(4,242)
<b>Balance at 31 December 2015</b>	<b>84,230</b>
Charge for the year	120,821
Disposals	-
<b>Balance at 31 December 2016</b>	<b>205,051</b>
<b>Carrying value at 31 December 2016</b>	<b>2,189,198</b>
Carrying value at 31 December 2015	2,037,870

In February 2015 the Company disposed of its entire freight wagon fleet, a Mark II coach and Mark II spares resulting in a profit of £3,251,863.

On 31 December 2015, the Company acquired the trade and assets of another group undertaking, Eversholt Rail (380) Limited, at net book value. The value of the net assets transferred was £151,707,863 and there was no material difference between the fair value and net book value of the assets transferred. Consideration of £151,707,863 was paid in the form of an intercompany loan. The net book value of the rolling stock assets transferred was £169,462,228.

On 31 December 2015, the Company entered into a finance lease arrangement with another group undertaking, European Rail Finance Limited ("lessor") to lease lessor's rolling stock at a market value of £1,572,459,900. Details of this are included in note 15.

The cost of tangible fixed assets at 31 December 2016 includes capitalised interest of £13,023,770 (2015: £2,490,025). The capitalisation rate used is the rate of interest attaching to the Company's borrowings attributable to the acquisition of rolling stock.

Rolling stock has been pledged to secure borrowings of the Group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted over the use of proceeds of sale.

All fixed assets are subject to operating lease arrangements.

**12 Trade and other receivables**

	<b>2016 £'000</b>	<b>2015 £'000</b>
<b>Current</b>		
Trade receivables	<u>1,660</u>	<u>2,900</u>
<b>Non-current</b>		
Maintenance prepayment	<u>-</u>	<u>4,908</u>

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

for the year ended 31 December 2016

**13 Investments in subsidiaries**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Cost at 1 January and 31 December	<u>34,348</u>	<u>34,348</u>

The subsidiary undertakings of the Company at the end of the year were:

<b>Name of Undertaking</b>	<b>Class of Capital</b>	<b>Country of Incorporation</b>	<b>Type of business</b>	<b>Ownership Percentage 2016</b>	<b>Ownership Percentage 2015</b>
Eversholt Rail Holdings (UK) Limited	Ordinary Shares	England**	Investment	100	100
Eversholt Rail (UK) Limited*	Ordinary Shares	England**	Management services	100	100
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

\* Indirect subsidiaries

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

**14 Derivative financial instruments**

The fair values together with the carrying amounts of the derivative financial instruments are as follows:

	<b>Carrying amount 2016</b>	<b>Fair value 2016</b>	<b>Carrying amount 2015</b>	<b>Fair value 2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Non-current assets</b>				
FX forwards – hedge accounted	<u>20,416</u>	<u>20,416</u>	-	-

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

<b>Counterparty</b>	<b>Notional amount 2016</b>	<b>Maturity date</b>	<b>Fair value 2016</b>	<b>Other comprehensive (gain)/loss 2016</b>	<b>Income statement (gain)/loss 2016</b>	<b>Realised gain/(loss) 2016</b>
	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Relationship bank	100,033	20 August 2019	9,324	(9,321)	(3)	-
Relationship bank	185,082	1 July 2020	11,084	(11,086)	2	-
Relationship bank	1,459	1 July 2020	8	(8)	-	-
Relationship bank		Terminated	-	(2,910)	(30)	-
Relationship bank		Terminated	-	(2,699)	(46)	(1,319)
			<u>20,416</u>	<u>(26,024)</u>	<u>(77)</u>	<u>(1,319)</u>

As at 31 December 2016, the hedges were deemed to be highly effective and the fair value asset of the foreign exchange forward contracts was £20,416,323 (31 December 2015: None).

During the year, two hedge relationships were de-designated which resulted in a realised loss of £1,319,405 in property, plant and equipment additions; the residual gain sitting in Other comprehensive income will amortise to property, plant and equipment in line with the the payment profile.

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

for the year ended 31 December 2016

**15 Obligations under finance lease**

On 31 December 2015, the Company entered into a finance lease arrangement with another group undertaking, European Rail Finance Limited ("lessor"), to lease lessor's rolling stock assets at a market value of £1,572,459,900 calculated at net present value of lease rentals. The finance lease arrangement is in place for the duration of the useful economic lives of the respective rolling stock assets.

Consequently the Company recognised a finance lease obligation in its books at the market value of £1,572,459,900 and corresponding rolling stock assets at the same value.

In addition the Company acquired from the lessor net liabilities of £67,888,501 at net book value consisting mainly of maintenance reserve balances (deferred revenue). Consideration of £67,888,501 was paid in the form of an intercompany loan.

During the year the rental obligations under the finance lease were prepaid by the Company. See note 18 for further details.

	2016 £'000	2015 £'000
<b>Total future minimum lease payments</b>		
No later than one year	-	100,600
Later than one year and no later than five years	-	585,200
Later than five years	-	2,154,100
<b>Gross finance lease obligation</b>	-	2,839,900
Future finance costs	-	(1,267,440)
<b>Present value of lease obligations</b>	-	1,572,460
<b>Present value of minimum lease payments</b>		
No later than one year	-	5,890
Later than one year and no later than five years	-	191,080
Later than five years	-	1,375,490
	-	1,572,460

**16 Trade and other payables**

	2016 £'000	2015 £'000
Trade payables	7,624	4,670
Rentals received in advance	13,108	6,391
Accruals	8,856	631
Other payables	7,345	4,434
	<b>36,933</b>	<b>16,126</b>

**17 Deferred Revenue**

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

	2016 £'000	2015 £'000
Current	<b>3,290</b>	3,176
Non-current	<b>111,800</b>	99,448

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



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

for the year ended 31 December 2016

**18 Borrowings**

	2016 £'000	2015 £'000
<b>Current</b>		
Eversholt Rail (UK) Limited (term loan)	<u>52,243</u>	<u>-</u>
<b>Non-current</b>		
Eversholt Rail (UK) Limited (term loan)	1,493,418	-
Eversholt Rail (UK) Limited (working capital loan)	384,153	272,613
Bank loan	5,700	5,604
	<u>1,883,271</u>	<u>278,217</u>

The term loan with Eversholt Rail (UK) Limited enabled the Company to settle in full, on 1 April 2016, its rental obligations under the finance lease with European Rail Finance Limited. The loan is repayable on or before 1 April 2036 with capital and interest payable on a monthly basis. Interest is charged at LIBOR plus margin.

The intragroup working capital loan with Eversholt Rail (UK) Limited is classified as non-current as it is repayable on 4 November 2018. 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 (2015: group's senior debt, plus margin).

The bank loan from HSBC Bank plc is secured against assets of the Class 365 fleet. It is classified as non-current as it is repayable in 2021 (2015: secured and non-current). Interest on the loan is payable six-monthly at a floating rate of GBP LIBOR (2015: GBP LIBOR).

**Maturity of borrowings**

The maturity profile of the carrying amount of the Company's non-current borrowings at 31 December 2016 was as follows:

	2016 £'000	2015 £'000
In more than one year but not more than two years	-	-
In more than two years but not more than five years	389,853	272,613
In more than five years	-	5,604
	<u>389,853</u>	<u>278,217</u>

**19 Deferred tax**

	2016 £'000	2015 £'000
Leasing transactions temporary differences:		
Balance at beginning of the year	39,619	22,855
Adjustment in respect of prior years	9,471	(65)
Accelerated capital allowances	13,620	5,780
Change in tax rate	(4,270)	(2,920)
Income tax on other comprehensive income	4,192	-
Transfers from other group undertakings	-	13,969
<b>Balance at end of the year</b>	<u>62,632</u>	<u>39,619</u>

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

The deferred tax at 31 December 2016 has been calculated based on the rate of 17% substantively enacted at the reporting date. The effect of the change in the rate to 17% was included in the financial statements.

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

for the year ended 31 December 2016

**20 Share capital**

	2016 £'000	2015 £'000
<b>Authorised, allotted, called up and fully paid</b>		
50,000,002 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

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

**21 Capital commitments**

	2016 £'000	2015 £'000
In respect of capital expenditure	<u>944,227</u>	<u>442,408</u>

The above represents all capital commitments, including three contracts entered into during the year to purchase and lease 140 new Class 195 vehicles, 141 new Class 331 vehicles and 60 new Class 397 vehicles.

**22 Risk Management**

The Company has exposure to the following types of risk arising from its use of financial instruments: credit risk, liquidity risk and market risk. Market risk includes interest rate risk and foreign exchange risk. In addition, the Company is exposed to residual value risk from its ownership of rail assets.

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.

**Residual value risk**

One of the key drivers of the Company'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 Company 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.

**Capital risk management**

The Board actively monitors the capital structure of the Company to ensure that the Company is able to continue as a going concern. Consideration is given to the availability, cost and risks associated with each class of capital and to maximising the return to stakeholders through the optimisation of the debt to equity ratio.

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

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

The Board formally reviews the capital structure on a semi-annual basis and reviews capital distribution. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Board actively monitors the cost and availability of funding.

**Credit risk management**

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. It arises principally from lease receivables.

The Company 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 past their due date. All outstanding balances have been received subsequent to year end.

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

for the year ended 31 December 2016

**22 Risk Management (continued)****Liquidity risk management**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. The Company borrows funds from another group entity to meet any shortfall. Conversely, the Company lends any surplus funds to other group entities.

The Company's assets, net of deferred tax, are funded principally by borrowings from another group entity.

Contractual undiscounted cash flows from the Company's assets and liabilities are analysed below by their contractual due date:

	Carrying value £'000	Total undiscounted 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>						
Fair value through profit or loss						
- Derivative financial instruments	20,416	14,348	-	1,562	12,786	-
Loans and receivables						
- Trade and other receivables	1,660	1,660	-	1,660	-	-
	<b>22,076</b>	<b>16,008</b>	-	<b>3,222</b>	<b>12,786</b>	-
<b>Financial liabilities</b>						
Non-derivative instruments – amortised cost						
- Trade and other payables	36,324	36,324	-	36,324	-	-
- Intercompany term lending	1,545,661	1,545,661	-	52,243	1,493,418	-
- Intercompany working capital loan	384,153	384,153	-	-	384,153	-
- Bank loan	5,700	5,700	-	-	5,700	-
	<b>1,971,838</b>	<b>1,971,838</b>	-	<b>88,567</b>	<b>1,883,271</b>	-
<b>Total financial instruments</b>	<b>(1,949,762)</b>	<b>(1,955,830)</b>	-	<b>(85,345)</b>	<b>(1,870,485)</b>	-
<b>31 December 2015</b>						
Loans and receivables						
- Trade and other receivables	7,808	7,808	-	2,900	4,908	-
<b>Financial liabilities</b>						
Non-derivative instruments – amortised cost						
- Obligations under finance lease	1,572,460	2,839,900	-	100,600	585,200	2,154,100
- Trade and other payables	16,126	16,126	-	16,126	-	-
- Intercompany working capital loan	272,613	272,613	-	-	272,613	-
- Bank loan	5,604	5,604	-	-	-	5,604
	<b>1,866,803</b>	<b>3,134,243</b>	-	<b>116,726</b>	<b>857,813</b>	<b>2,159,704</b>
<b>Total financial instruments</b>	<b>(1,858,995)</b>	<b>(3,126,435)</b>	-	<b>(113,826)</b>	<b>(852,905)</b>	<b>(2,159,704)</b>

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

**Market risk management****Foreign currency risk**

The Company hedges against foreign exchange risk on its financial assets or financial liabilities.

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

for the year ended 31 December 2016

**22 Risk Management (continued)****Market risk management (continued)****Interest rate risk**

The Company has exposure to fluctuations in interest rates. This exposure is managed at a Group level through the use of interest rate swaps. The cash benefit derived from the use of swaps is taken into account in determining the interest charged on loans to and from other group entities.

**Interest rate Sensitivity Analysis**

The impact of a 50 basis points increase in GBP LIBOR would have resulted in a decrease in intercompany working capital interest expense of £210,087. The sensitivity analysis is applied to the borrowing rate and performed on the monthly balance of the relevant financial instrument.

**23 Financial Instruments**

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

	Note	Carrying amount		Fair value	
31 December 2016		£'000	Level 1	Level 2	Level 3
			£'000	£'000	£'000
<b>Financial assets</b>					
Fair value through profit or loss					
-	14	20,416	-	20,416	-
Loans and receivables					
-	12	1,660			
<b>Total Financial assets</b>					
<b>22,076</b>					
<b>Financial liabilities</b>					
Non-derivative instruments – amortised cost					
-	16	36,324			
-	18	1,545,661			
-	18	384,153			
-	18	5,700			
<b>Total Financial liabilities</b>					
<b>1,971,838</b>					
<b>Total Financial instruments</b>					
<b>(1,949,762)</b>					
	Note	Carrying amount		Fair value	
31 December 2015		£'000	Level 1	Level 2	Level 3
			£'000	£'000	£'000
<b>Financial assets</b>					
Fair value through profit or loss					
-	14	-			
Loans and receivables					
-	12	7,808			
<b>Total Financial assets</b>					
<b>7,808</b>					
<b>Financial liabilities</b>					
Non-derivative instruments – amortised cost					
-	15	1,572,460			
-	16	16,126			
-	18	272,613			
-	18	5,604			
<b>Total Financial liabilities</b>					
<b>1,866,803</b>					
<b>Total Financial instruments</b>					
<b>(1,858,995)</b>					

There are no material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2016 (2015: nil).

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

for the year ended 31 December 2016

**24 Operating lease arrangements**

**The Company as lessor**

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

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	<b>375,828</b>	335,433
2-5 years	<b>704,914</b>	744,520
Over 5 years	<b>198,417</b>	246,917
	<b><u>1,279,159</u></b>	<u>1,326,870</u>
Aggregate operating lease rentals receivable in the year	<b><u>363,553</u></b>	<u>172,168</u>

Future minimum lease payments payable to group undertakings under non-cancellable operating leases:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
No later than one year	-	-
Later than one year and no later than five years	-	-
Later than five years	-	-
	<u>-</u>	<u>-</u>
Aggregate operating lease rentals payable during the year	<u>-</u>	<u>93,439</u>

**25 Related-party transactions**

**25.1 Identity of related parties**

The Company has a related party relationship with its directors (refer page 4) and with its fellow group undertakings of the Eversholt Rail Group, namely:

- European Rail Finance Holdings Limited
- Eversholt Investment Limited
- European Rail Finance Limited
- Eversholt Rail Holdings (UK) Limited
- Eversholt Finance Holdings Limited
- Eversholt Funding plc
- Eversholt Rail (UK) Limited
- Eversholt Depot Finance (UK) Limited
- Eversholt Rail (380) Limited
- Eversholt Rail (365) Limited
- European Rail Finance (2) Limited

The ultimate parent undertaking (which is the ultimate controlling party) is CK Hutchison Holdings Limited, incorporated in Hong Kong. It was previously Eversholt Investment Group (Luxembourg) sarl. 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 European Rail Finance Holdings Limited. The results of the Company are included in the Group financial statements of CK Hutchison Holdings Limited.

Copies of the Group financial statements may be obtained from the following address:

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

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

for the year ended 31 December 2016

**25 Related-party transactions (continued)**

**25.2 Transactions with related parties**

Dividend income and dividends paid are more fully described in note 10. The Company has loans with related parties, more fully described in note 18. Interest on the loans is more fully described in note 6.

The Company paid management fees to Eversholt Rail (UK) Limited of £18,739,670 (2015: £2,127,800). The Company paid management fees to Eversholt Investment Limited of £60,000 (2015: £10,000).

The Company leased assets from European Rail Finance Limited until 31 December 2015. The operating lease expense of £nil is included in cost of sales (2015: £93,438,996).

The Company has paid Eversholt Rail (UK) Limited £60,273,753 for the procurement of maintenance of the rolling stock (2015: £38,588,213).

The Company received service charge income of £110,000 from Eversholt Investment Limited (2015: £110,000).

The Directors held the following interests in Eversholt Investment Group (Luxembourg) sarl:

<b>Preferred Equity Certificates</b>	<b>MB Kenny</b>
<b>Certificates held at 31 December 2014</b>	321,568
Certificates redeemed	<u>(321,568)</u>
<b>Certificates held at 31 December 2015 and 2016</b>	<u>-</u>
 <b>Ordinary shares held</b>	
<b>Shares held at 31 December 2014</b>	901
Shares redeemed	<u>(901)</u>
<b>Shares held at 31 December 2015 and 2016</b>	<u>-</u>

**26 Contingent liabilities**

There were no contingent liabilities for the Company at 31 December 2016 (2015: nil).

**27 Subsequent events**

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