

European Rail Finance Holdings Limited

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

Registered No: IR443562

European Rail Finance Holdings Limited

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

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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.

Principal activities

The Company continues to hold its investment in European Rail Finance (2) Limited, European Rail Finance (GB) Limited and Eversholt Finance Holdings Limited. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 14.

On 20 December 2016 the place of central management and control was transferred to the UK. As a result of this transfer, the Company became tax resident in the UK on 20 December 2016.

Business review

The business is funded by equity and borrowings from group undertakings and preference share capital. The Company has no employees.

Risk management

The Company is subject to the risk management objectives and policies of the Group. These objectives, together with an analysis of the exposure to such risks, are set out in note 13 of the financial statements.

The principal business risks for the Company are in respect of the credit risk of fellow group undertakings with which the Company has loan accounts and the risk of diminution in the value of investments in its subsidiaries.

Performance

The Company's results for the year as detailed in the Income statement on page 7.

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.

Dividends

The Directors declared a dividend of £35,000,000 on 14 December 2016 (2015: £93,500,000). 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 Company has the resources, with the support of the Group, 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 were as follows:

B Hayden	Resigned 19 December 2016
C Cullen	Resigned 19 December 2016
M Walsh	Resigned 19 December 2016
M B Kenny	Appointed 20 December 2016
A J Course	Appointed 20 December 2016
A J Wesson	Appointed 20 December 2016

The Directors resigned with effect from midnight of 19 December 2016.

Directors' report (continued)
for the year ended 31 December 2016

Directors (continued)

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.

Capital 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.

Disclosure of information to the auditor

Each person who is a director at the date of approval of this annual report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Accounting records

The Directors believe that they have complied with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to books of account by employing a service provider, which has appropriate expertise and provides adequate resources to the financial function. The books of account of the Company are maintained primarily by Eversholt Rail (UK) Limited, 210 Pentonville Road, London N1 9JY and held by European Rail Finance Holdings Limited, Newmount House, 22-24 Mount Street Lower, Dublin2, Ireland.

Auditor

Pursuant to Section 383(2) of the Companies Act 2014 the Auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Signed on behalf of the Board by:



M B Kenny
Director



A J Wesson
Director

Registered Office:
Newmount House
22-24 Mount Street Lower
Dublin 2
Ireland

13 February 2017

Statement of Directors' responsibilities

for the year ended 31 December 2016

The Directors are responsible for preparing the 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 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 2014. 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

These financial statements have been approved by the Board of Directors on 13 February 2017 and were signed on its behalf by:



M B Kenny
Director



A J Wesson
Director

Registered Office:
Newmount House
22-24 Mount Street Lower
Dublin 2
Ireland

Independent Auditor's report to the Members of European Rail Finance Holdings Limited

for the year ended 31 December 2016

We have audited the financial statements of European Rail Finance Limited for the financial year ended 31 December 2016 which comprise 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 16. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("relevant financial reporting framework").

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. 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 auditors' 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 auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with the Companies Act 2014 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 annual 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 assets, liabilities and financial position of the Company as at 31 December 2016 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

Matters on which we are required to report by the Companies Act 2014

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

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the Directors' report is consistent with the financial statements.

European Rail Finance Holdings Limited

Independent Auditor's report to the Members of European Rail Finance Holdings Limited (continued)

for the year ended 31 December 2015

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.



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

13H February 2017

European Rail Finance Holdings Limited

Income statement

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Finance expense	4	(1,466)	(1,747)
Dividend income	5	37,000	95,000
Administrative expense	6	(23)	(24)
Profit before tax		35,511	93,229
Income tax charge	7	-	-
Profit for the year		35,511	93,229

There were no discontinued or discontinuing operations during the year.

The notes on pages 11 to 19 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2016

There has been no comprehensive income or expense other than the profit for the year as shown above (2015: £nil).

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:



M B Kenny
Director



A J Wesson
Director

Company registration number IR443562

Statement of financial position

as at 31 December 2016

Asset	Note	2016 £'000	2015 £'000
Non-current assets			
Investment in subsidiaries	8	<u>517,511</u>	<u>517,511</u>
Total assets		<u>517,511</u>	<u>517,511</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	9	<u>375</u>	<u>439</u>
Non-current liabilities			
Borrowings	10	<u>76,438</u>	<u>76,885</u>
Total liabilities		<u>76,813</u>	<u>77,324</u>
Equity			
Share capital	11	500	500
Capital contribution		100,000	100,000
Retained earnings		<u>340,198</u>	<u>339,687</u>
Total equity		<u>440,698</u>	<u>440,187</u>
Total equity and liabilities		<u>517,511</u>	<u>517,511</u>

The notes on pages 11 to 19 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:

M B Kenny
Director

A J Wesson
Director

Company registration number IR443562

Statement of cash flows

for the year ended 31 December 2016

	<i>Note</i>	2016 £'000	2015 £'000
Cash flow from operating activities			
Profit before tax		35,511	93,229
Adjustment for:			
- Finance expense	4	1,466	1,747
Operating cash flow before changes in working capital		<u>36,977</u>	<u>94,976</u>
Decrease in trade and other receivables		-	34
(Decrease)/increase in trade and other payables		(2)	1
Cash flow generated by operating activities		<u>36,975</u>	<u>95,011</u>
Taxation paid		-	(184)
Net cash generated by operating activities		<u>36,975</u>	<u>94,827</u>
Cash flow from financing activities			
Intercompany loans raised		-	540
Movement on working capital loan with Eversholt Rail (UK) Limited		(447)	-
Preference dividends paid		(1,358)	(1,713)
Finance expense paid		(170)	(154)
Dividends paid on ordinary shares		(35,000)	(93,500)
Net cash utilised in financing activities		<u>(36,975)</u>	<u>(94,827)</u>
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at end of the year		<u>-</u>	<u>-</u>

Statement of changes in equity

for the year ended 31 December 2016

	Note	Share capital £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015	11	500	100,000	339,958	440,458
Profit for the year		-	-	93,229	93,229
Dividends paid		-	-	(93,500)	(93,500)
Balance at 31 December 2015		500	100,000	339,687	440,187
Profit for the year		-	-	35,511	35,511
Dividends paid		-	-	(35,000)	(35,000)
Balance at 31 December 2016		500	100,000	340,198	440,698

Included in retained earnings is £339,125,444 which is non-distributable (2015: £339,125,444).

During the year the Company paid a dividend of £70 per share (2015: £187 per share).

Notes to the annual financial statements

for the year ended 31 December 2016

1. General Information

European Rail Finance Holdings Limited (the "Company"), is a private company domiciled and incorporated in the Republic of Ireland under the Companies Act and is limited by authorised shares (see note 11). The registered office of the Company is Newmount House, 22-24 Mount Street Lower, Dublin 2, Ireland.

On 20 December 2016 the place of central management and control was transferred to the UK. As a result of this transfer, the Company became tax resident in the UK on 20 December 2016.

2. Basis of Preparation

These financial statements are presented in sterling being the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.1 Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared on the historical cost basis. 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 and endorsed by the EU.

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

2.2 Standards and Interpretations issued by the IASB

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 Disclosure Initiative (mandatory for periods beginning on or after 1 January 2017).
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (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 Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2018).

2.3 Going concern

The Company's forecasts and projections taking account of reasonably possible changes in trading performance show that the Company, having the commitment of support from the parent, has adequate resources to continue in the operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing financial statements.

Notes to the annual financial statements (continued)

for the year ended 31 December 2016

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 income and expense

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

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

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

All the borrowing costs are recognised in profit and loss in the period in which they are incurred.

3.2 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 period, calculated using tax rates enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company 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.

3.3 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 period. 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.

3.4 Dividend income

Dividend income from investments is recognised when the right to receive payment is established.

Notes to the annual financial statements (continued)

for the year ended 31 December 2016

3. Summary of significant accounting policies (continued)

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 periods 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.

3.6 Financial instruments

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.

3.6.1 Financial liabilities

Financial liabilities are classified as either financial liabilities at 'fair value through profit or loss' (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.

3.6.2 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 to 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.

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

3.9 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 paid 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2016

3. Summary of significant accounting policies (continued)

3.10 Use of assumptions and estimates

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

There are no accounting policies that are deemed critical to the Company's results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation.

3.11 Preference shares

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

4. Finance expense

	2016 £'000	2015 £'000
Dividend on profit participating preference shares	(801)	(1,099)
Dividend on fixed rate preference shares	(495)	(495)
Finance charges payable to Eversholt Rail (UK) Limited	(170)	(153)
	<u>(1,466)</u>	<u>(1,747)</u>

5. Dividend income

During the year, the Company received dividends of £1,000,000 from European Rail Finance (2) Limited (2015: £95,000,000) and £36,000,000 from European Rail Finance (GB) Limited (2015: £nil).

6. Administrative expense

	2016 £'000	2015 £'000
Administrative expense include the following:		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	(6)	(4)

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

Certain directors have been paid by another group undertaking. No specific charge has been made to the Company in this regard.

7. Income tax charge

	2016 £'000	2015 £'000
Current tax		
- On current year profit	-	-
Total income tax charge	<u>-</u>	<u>-</u>

The Irish corporation tax rate applying to the Company until 19 December 2016 was 12.5% (2015: 12.5%). The UK tax rate applying to the profits of the Company from 20 December 2016 was 20%.

Notes to the annual financial statements (continued)

for the year ended 31 December 2016

7. Income tax charge (continued)

The following table reconciles the tax expense which would apply if all profits had been taxed at the UK corporation tax rate in 2016 and the Irish corporation tax rate in 2015:

	2016 £'000	2015 £'000
Taxation at corporation tax rate of 20% (2015: 12.5%)	(7,102)	(11,654)
Permanent tax effects	7,102	11,654
Income tax charge	<u>-</u>	<u>-</u>

8. Investments in subsidiaries

	2016 £'000	2015 £'000
Cost 1 January and 31 December	<u>517,511</u>	<u>517,511</u>

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

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage	
				2016	2015
European Rail Finance Limited*	Ordinary Shares	Ireland**	Leasing	100%	100%
European Rail Finance (GB) Limited	Ordinary Shares	England***	Leasing	100%	100%
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%
Eversholt Finance Holdings Limited	Ordinary Shares	England***	Investment	100%	100%
Eversholt Funding plc*	Ordinary Shares	England***	Provision of finance	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, London, N1 9JY

9. Trade and other payables

	2016 £'000	2015 £'000
Accrued interest on preference shares	367	429
Accruals	8	10
	<u>375</u>	<u>439</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2016

10. Borrowings

	2016 £'000	2015 £'000
Non-current		
Fixed rate preference shares	49,500	49,500
Profit participating preference shares	25,000	25,000
Eversholt Rail (UK) Limited	<u>1,938</u>	<u>2,385</u>
	<u>76,438</u>	<u>76,885</u>

The fixed rate preference shares, being £49,500,000 fixed rate preference shares of £1 each, are held by Eversholt Investment Limited. Dividends are paid annually at a rate of 1% per annum.

25,000,000 profit participating shares (PPS) of £1 each carry a right to quarterly dividends. The PPS dividend element has two parts. The first part confers a right to a GBP LIBOR based return. The second part confers a right to 0.5% 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 are only able to recall the shares from 2020.

The intragroup 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).

11. Share capital

	2016 £'000	2015 £'000
Authorised		
50,500,000 Ordinary shares of £1 each (2015: 50,500,000)	<u>50,500</u>	<u>50,500</u>
Allotted, called up and fully paid		
500,001 Ordinary shares of £1 each (2015: 500,001)	<u>500</u>	<u>500</u>

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

12. Fair value of financial assets and liabilities

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

13. Risk management

Capital risk management

Exposure to credit risk, liquidity risk, and market risk arises in the normal course of the Company's business. The policies for managing all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements are described in this note.

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 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2016

13. Risk management (continued)

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 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.

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.

The Company's assets are funded principally by borrowings from another group entity.

Undiscounted cash flows payable to meet financial liabilities are analysed below by their contractual due date, including estimated interest cash flows where appropriate.

Undiscounted cash flows in respect of the intercompany loan with Eversholt Rail (UK) Limited include the principal amount of working capital loans 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.

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2016						
Financial liabilities						
Non-derivative instruments – amortised cost						
- Trade and other payables	375	375	-	375	-	-
- Borrowings	1,938	1,938	-	-	1,938	-
- Preference shares	74,500	74,500	-	-	25,000	49,500
	76,813	76,813	-	375	26,938	49,500
Total financial instruments	(76,813)	(76,813)	-	(375)	(26,938)	(49,500)

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2015						
Financial liabilities						
Non-derivative instruments – amortised cost						
- Trade and other payables	439	439	-	439	-	-
- Borrowings	2,385	2,385	-	-	2,385	-
- Preference shares	74,500	74,500	-	-	25,000	49,500
	77,324	77,324	-	439	27,385	49,500
Total financial instruments	(77,324)	(77,324)	-	(439)	(27,385)	(49,500)

Notes to the annual financial statements (continued)

for the year ended 31 December 2016

13. Risk management (continued)

Market risk management

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

The Company has exposure to fluctuation in interest rates. This exposure is managed at a group level.

	2016 £'000	2015 £'000
Fixed rate instruments		
Financial liabilities	<u>49,500</u>	<u>49,500</u>
Variable rate instruments		
Financial liabilities	<u>25,000</u>	<u>25,000</u>

Interest rate sensitivity analysis

The impact of a 50 basis points increase in LIBOR would have resulted in a decrease in intercompany working capital interest expense of £1,841. The sensitivity analysis is applied to the borrowing rate and performed on the monthly balance of the relevant financial instrument.

14. Related-party transactions

14.1 Identity of related parties

The Company has a related party relationship with its Directors (refer page 2) and with other entities in the Eversholt Rail Group namely:

- Eversholt Investment Limited
- European Rail Finance Limited
- European Rail Finance (GB) 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. 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. Eversholt Investment Limited is the immediate holding company. 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

14. Related-party transactions (continued)

14.2 Transactions with related parties

The Company has loan accounts with fellow group undertakings more fully described in note 10. Interest on these accounts is more fully described in note 4.

The fixed rate preference dividend payable to Eversholt Investment Limited is disclosed in note 4.

Management fees of £10,000 payable to Eversholt Investment Limited (2015: £10,000).

15. Contingent liabilities

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

16. Subsequent events

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