Eversholt Investment Limited
(Security group)

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

Registered No: IR490363

Eversholt Investment Limited (Security group)

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.

Presentation of information

These financial statements are non–statutory financial statements and have been prepared solely for the purpose of meeting the reporting requirements of the Financing Documents entered into by Eversholt Investment Limited, (the "Company") and its subsidiaries on 4 November 2010. The Security Group (the 'Group') consists of Eversholt Investment Limited and its subsidiaries except for Eversholt Rail (365) Limited. Users of these financial statements should particularly note the basis of consolidation set out in note 2.1.

Principal activities

The principal activity of the Group is to own and lease rolling stock and other rail assets in the United Kingdom ("UK").

Business review

During the year ended 31 December 2016, the Group has continued its business of owning and leasing rolling stock and other rail assets, and providing asset management services to other new owners.

During the year the Company entered into FX forward deals and Interest Rate Swaps to hedge cash flow risk associated with the fluctuations in foreign exchange rates and interest rates on new build payments and finance costs. On 21 October 2016 the Group raised new finance of £200,000,000 through a private placement of notes. £100,000,000 was drawn on 21 November 2016 and a further £100,000,000 will be drawn in April 2017. Details of new build additions, derivative transactions and borrowings are more fully described in notes 11, 14 and 20.

On 20 December 2016 the place of central management and control for the Company and two other group companies was transferred to the UK. As a result of this transfer, the Company, European Rail Finance Holdings Limited and European Rail Finance (2) Limited become tax resident in the UK on 20 December 2016.

On 31 December 2015 the Group underwent an internal restructure which resulted in moving the central management and control of European Rail Finance Limited to the UK. As a result of this transfer, European Rail Finance Limited became tax resident in the UK on 31 December 2015. European Rail Finance Limited subsequently granted a finance lease to lease its rolling stock assets to European Rail Finance (GB) Limited. In addition, Eversholt Rail (380) Limited has transferred its trade and assets to European Rail Finance (GB) Limited. In April 2016 European Rail Finance (GB) Limited prepaid the finance lease and so there is no finance lease obligation outstanding to European Rail Finance Limited.

Risk management

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

The principal business risk for the Group is in respect of residual value of its operating lease assets. The Group seeks to maximise the 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 cash flows arising from ownership over the life of the assets. This assessment provides a basis for measuring the success of the Group in managing its assets, as well as for determining if that value is below the current book value and therefore an impairment provision might be needed.

The asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Group has an excellent knowledge of the current condition of its fleet.

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

Risk management (continued)

The Group has developed a specialist in-house inspection team who consider whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis.

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

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

Performance

The results for the Group for the year are as detailed in the Income statement on page 8.

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.

Future developments

The Group will continue to invest in the enhancement of its fleet.

The Group will continue to offer its assets for lease by train operators, with particular focus on upcoming major franchise renewals and single tender action franchise extensions.

The Group will continue to look for the right opportunities to invest further in new fleets which strategically fit with the existing portfolio.

Dividends

Dividends of £14,772,150 were paid in the year (2015: £20,751,074). Dividend payments are reflected in the financial statements in the year in which they are declared.

Going concern basis

The financial statements are prepared on the going concern basis, as the Directors are satisfied that the Group 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 were as follows:

B T 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
I Bodden	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.

Supplier payment policy

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

Capital management

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

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.

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 Eversholt Investment Limited, Newmount House, 22-24 Mount Street Lower, Dublin 2, 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

Date: 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 the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These financial statements were approved by the Board of Directors on 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 Directors of Eversholt Investment Limited (Security group)

for the year ended 31 December 2016

We have audited the non-statutory financial statements of Eversholt Investment Limited (Security Group) for the financial year ended 31 December 2016 which comprise Consolidated income Statement, the Consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes 1 to 33. 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 loss 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

- 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.

Independent Auditor's Report to the Directors of Eversholt Investment Limited (Security group) (continued)
for the year ended 31 December 2016

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

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
13th February 2017

Consolidated income statement
for the year ended 31 December 2016

	Note	Group Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Revenue			
Finance lease income		**699**	717
Operating lease income		**294,046**	284,686
Maintenance income		**69,092**	82,195
Other revenue		**3,527**	3,969
Total revenue		**367,364**	371,567
Cost of sales	*4*	**(163,221)**	(171,444)
Gross profit		**204,143**	200,123
Finance income	*5*	**186**	316
Finance expense	*6*	**(130,600)**	(136,278)
Net fair value loss on derivatives		**(45,730)**	(6,478)
Pension finance charge	*28.6*	**(97)**	(92)
		27,902	57,591
Administrative expense	*7*	**(20,258)**	(25,697)
Profit on disposal of property, plant and equipment	*11*	**12**	29,247
Profit before tax		**7,656**	61,141
Income tax charge	*10*	**(9,708)**	(10,451)
(Loss)/profit for the year		**(2,052)**	50,690

There were no discontinued or discontinuing operations during the year.

Consolidated statement of comprehensive income
for the year ended 31 December 2016

	Note	Group Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
(Loss)/profit for the year		**(2,052)**	50,690
Other comprehensive (expense)/income			
Actuarial (loss)/gain on defined benefit scheme	*28.7*	**(2,988)**	145
Tax in respect of actuarial (loss)/gain on defined benefit scheme	*15*	**510**	(26)
Effective portion of changes in fair value of cash flow hedges	*14**	**(4,723)**	-
Realised gain on cash flow hedges to Property, plant and equipment	*14**	**(1,272)**	-
Realised loss on cash flow hedges to the Income statement	*14*	**1,235**	
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	*15*	**816**	-
Total comprehensive (expense)/income for the year		**(8,474)**	50,809

*Net effective portion of changes in fair value of cash flow hedges on foreign exchange contract (note 14.1) and interest rate swaps (note 14.2).

The notes on pages 12 to 39 form an integral part of these financial statements.

The financial statements were approved by 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: IR 490363

Consolidated statement of financial position
as at 31 December 2016

		Group	
		As at 31 December 2016	As at 31 December 2015
Assets	*Note*	£'000	£'000
Non-current assets			
Property, plant and equipment	11	**1,872,396**	1,708,407
Finance lease receivables	12	**7,198**	8,241
Trade and other receivables	13	**-**	4,908
Derivative financial instruments	14	**29,558**	860
Deferred tax	15	**32,951**	18,875
Investments in subsidiary	16	**2,835**	2,835
		1,944,938	1,744,126
Current assets			
Inventory	17	**1,149**	1,355
Finance lease receivables	12	**1,001**	896
Trade and other receivables	13	**29,678**	33,264
Cash and cash equivalents	18	**50,566**	72,655
		82,394	108,170
Total assets		**2,027,332**	1,852,296
Liabilities and equity			
Current liabilities			
Trade and other payables	19	**53,626**	43,494
Current tax		**16,249**	24,312
Borrowings	20	**63,235**	32,604
Derivative financial instruments	14	**153**	-
Deferred revenue	21	**3,290**	3,176
Provisions	22	**35**	1,154
		136,588	104,740
Non-current liabilities			
Retirement benefit obligation	28.5	**5,968**	2,763
Borrowings	20	**1,802,152**	1,725,607
Amounts owed to Eversholt Rail (365) Limited		**22,848**	31,375
Current tax		**-**	23,673
Deferred tax	15	**66,424**	44,552
Deferred revenue	21	**123,756**	106,211
Derivative financial instruments	14	**168,333**	88,866
		2,189,481	2,023,047
Total liabilities		**2,326,069**	2,127,787
Equity			
Share capital	23	**12**	12
Share premium account		**13,660**	13,660
Accumulated deficit		**(308,465)**	(289,163)
Hedging reserve		**(3,944)**	-
Total equity		**(298,737)**	(275,491)
Total equity and liabilities		**2,027,332**	1,852,296

The notes on pages 12 to 39 form an integral part of these financial statements. The financial statements were approved by Board of Directors and authorised for issue on 13 February 2017. They were signed on its behalf by:

M B Kenny
Director
Company registration number: IR 490363

A J Wesson
Director

Consolidated statement of cash flows
for the year ended 31 December 2016

	Note	Group Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Cash flow from operating activities			
Profit before tax		**7,656**	61,141
Adjustments for:			
- Depreciation	*11*	**108,388**	105,318
- Write down of inventory	*4*	**206**	206
- Fair value adjustment on derivative financial instrument		**45,730**	6,478
- Profit on disposal of property, plant and equipment		**(12)**	(29,247)
- Unwinding of capitalised finance charges		**3,843**	4,731
- Interest on borrowings		**126,571**	131,231
- Adjustment for non-cash element of pension charge		**217**	222
Operating cash flows before changes in working capital		**292,599**	280,080
Decrease in finance lease receivable		**938**	924
Decrease/(increase) in trade and other receivables		**8,494**	(13,510)
Increase in deferred revenue		**15,756**	7,188
Decrease in provisions		**(1,119)**	(41)
Increase in trade and other payables		**10,140**	12,632
Net cash flow generated by operating activities		**326,808**	287,273
Taxation paid		**(32,301)**	(7,761)
Interest received		**185**	316
Net cash generated by operating activities		**294,692**	279,828
Cash flow from investing activities			
Acquisition of property, plant and equipment	*11*	**(273,696)**	(130,157)
Proceeds from disposal of property, plant and equipment		**12**	54,041
Net cash utilised in investing activities		**(273,684)**	(76,116)
Cash flow from financing activities			
Funds raised	*20*	**130,000**	90,000
Bank loans repaid		**-**	(115,000)
Shareholders loans repaid		**(24,142)**	-
Realised gain/(loss) on derivative instruments		**1,731**	(25,764)
Finance expense paid	*25*	**(127,387)**	(109,358)
Dividends paid		**(14,772)**	(20,751)
(Payment to)/received from Eversholt Rail (365) Limited		**(8,527)**	12,329
Net cash utilised in financing activities		**(43,097)**	(168,544)
Net movement in cash and cash equivalents		**(22,089)**	35,168
Cash and cash equivalents at beginning of the year		**72,655**	37,487
Cash and cash equivalents at end of the year	*18*	**50,566**	72,655

Consolidated statement of changes in equity
for the year at 31 December 2016

	Note	Share capital £'000	Share premium £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2015	***23***	12	13,660	-	(319,221)	(305,549)
Profit for the year		-	-	-	50,690	50,690
Dividend paid		-	-	-	(20,751)	(20,751)
Actuarial gains on defined benefit scheme after tax		-	-	-	119	119
Balance at 31 December 2015		12	13,660	-	(289,163)	(275,491)
Loss for the year		-	-	-	(2,052)	(2,052)
Dividend paid	***26***	-	-	-	(14,772)	(14,772)
Effective portion of changes in fair value of cash flow hedges	***14***	-	-	(4,723)	-	(4,723)
Realised gain on cash flow hedges to Property, plant and equipment	***14***	-	-	(1,272)	-	(1,272)
Realised gain on cash flow hedges to the Income statement	***14***	-	-	1,235	-	1,235
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	***15***	-	-	816	-	816
Actuarial losses on defined benefit scheme after tax		-	-	-	(2,478)	(2,478)
Balance at 31 December 2016		**12**	**13,660**	**(3,944)**	**(308,465)**	**(298,737)**

Dividends of £1,231 per share were paid during the year (2015: £1,729 per share).

Notes to the annual financial statements
for the year ended 31 December 2016

1 General Information

Eversholt Investment Limited (the "Company") is a private company incorporated in the Republic of Ireland under the Companies Act and is limited by authorised shares (see note 23). The registered office of the Company is Newmount House, Mount Street Lower, Dublin 2, Ireland. The principal activities of the Group are set out on page 2.

2 Basis of Preparation

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

2.1 Basis of consolidation

The consolidated financial statements of Eversholt Investment Limited and its subsidiaries (the Group) except for Eversholt Rail (365) Limited have been prepared solely for the purpose of meeting the reporting requirements of the Financing Documents dated 4 November 2010 entered into by the Company and certain of its subsidiaries.

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

Other than Eversholt Rail (365) Limited, entities that are controlled by Eversholt Investment Limited are consolidated until the date that control ceases.

All inter-company transactions are eliminated on consolidation, other than transactions with Eversholt Rail (365) Limited.

2.2 Compliance with International Financial Reporting Standards

The consolidated financial statements of Eversholt Investment Limited have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. Except for the disaggregation of Eversholt Rail (365) Limited, these financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group. Accordingly, the consolidated financial statements of Eversholt Investment Limited for the year ended 31 December 2016 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU, except as noted above.

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

2 Basis of Preparation (continued)

2.3 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 (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). The impact resulting from the implication of this standard is currently being assessed by the Directors.
- 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).

2.4 Accounting policies, changes in accounting estimates and errors

In accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) a change in depreciation has been made retrospectively and included in the income statement for the period ended 31 December 2016.

The effect of the above on the Income Statement was that the depreciation cost (included in cost of sales) has increased by £3,873,000 to reflect depreciation adjustment relating to previous years.

The effect on the cash flow statement of the amended standard was an adjustment to loss before tax of £3,873,000 and the operating activities reconciling items. There was no effect on the net cash from operating activities. The effect on the statement of changes in equity of the amended standard was an adjustment to retained earnings, as explained above.

2.5 Going concern

The accumulated losses being greater than the called up share capital gives rise to there being an excess of liabilities over assets. The financial statements have been assessed in conjunction with its immediate parent, Eversholt Investment Group (Luxembourg) sarl, as its viability is dependent upon the ability of the immediate parent to provide funds for the Group when required. As a result and having made appropriate enquiries, reviewed forecasts and having the commitment of support from the parent, the Directors consider it reasonable to assume that the 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 periods presented in these financial statements.

3.1 Finance and operating leases

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

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

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

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

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

3.2 Finance income and expense

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

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

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

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

3.3 Fees and commission income

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

3 Summary of significant accounting policies (continued)

3.4 Income tax

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

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

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

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

3.5 Foreign currencies

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

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

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

3.6 Property, plant and equipment

In accordance with IFRS 3 the Group restated its rolling stock and other railway assets to their fair value at the acquisition date.

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.

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

The depreciation charge is included in the Income statement.

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

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

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

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

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

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

3.7 Subsidiaries

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

3.8 Financial instruments

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

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

Loans and receivables

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

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

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.

Financial liabilities

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

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

Impairment of financial assets

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

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

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

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

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

Offsetting financial assets and financial liabilities

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

Derivatives and hedge accounting

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

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

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Derivatives and hedge accounting (continued)

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

Determination of fair value

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

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

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

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

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

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

3.9 Statement of cash flows

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

3.10 Share capital

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

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

3 Summary of significant accounting policies (continued)

3.11 Use of assumptions and estimates

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

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

Critical judgements in applying the Group's accounting policies

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

Depreciation

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.

Valuation of defined benefit retirement obligation

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

Maintenance

The maintenance accounting model uses a number of assumptions including management forecasts of future maintenance activities.

Fair value of derivative financial instruments

In the determination of the fair value of financial instruments management have taken into account the contractual cash flows attaching to the instruments and an independently sourced yield curve for the reporting date.

3.12 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 other liabilities. When maintenance services are performed, the cost of which will be recovered under these arrangements only in future years, the future recoverable amount is included in prepayments. Revenue from maintenance services rendered is recognised when the services are provided. In all cases maintenance service costs are expensed as incurred.

3.13 Retirement benefit obligations

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

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

3 Summary of significant accounting policies (continued)

3.13 Retirement benefit obligations (continued)

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

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

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

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

3.14 Inventories

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

3.15 Provisions

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

3.16 Preference shares

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

4 Cost of sales

	Group	
	Year ended 31 December 2016 £'000	**Year ended 31 December 2015 £'000**
Depreciation	**108,094**	104,778
Maintenance cost	**54,921**	66,460
Write down in the value of inventories	**206**	206
	163,221	171,444

5 Finance income

	Group	
	Year ended 31 December 2016 £'000	**Year ended 31 December 2015 £'000**
Bank interest	**186**	316

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

6 Finance expense

	Group	
	Year ended 31 December 2016 £'000	**Year ended 31 December 2015 £'000**
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	**(50,085)**	(47,891)
Profit participating preference share dividend	**(801)**	(1,099)
Interest payable on derivatives	**(5,495)**	(6,060)
Interest payable on bank loans	**(3,258)**	(7,471)
Interest payable on bonds	**(65,717)**	(68,487)
Other finance costs	**(1,401)**	(539)
Unwinding of capitalised borrowing costs	**(3,843)**	(4,731)
	(130,600)	(136,278)

Borrowing costs included in the cost of qualifying assets during the year arose on the inter-company loans.

7 Administrative expense

Administrative expense includes:

	Group	
	Year ended 31 December 2016 £'000	**Year ended 31 December 2015 £'000**
Foreign exchange gain/(loss)	**59**	(123)
Depreciation – other assets	**(294)**	(540)
Defined contribution pension costs	**(715)**	(666)
Fees payable to the Company's auditor for the audit of the Group's annual financial statements	**(204)**	(112)
Fees payable to the Company's auditor and its associates for other services	**(133)**	(60)

8 Staff numbers and costs

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

	Group	
	Year ended 31 December 2016 Number	**Year ended 31 December 2015 Number**
Directors	3	3
Operations	67	67
Administration	39	43
	109	113

	Group	
	Year ended 31 December 2016 £'000	**Year ended 31 December 2015 £'000**
Wages and salaries (excluding Directors' emoluments)	(11,208)	(11,625)
Social security costs	(1,452)	(1,392)
Contributions to defined contribution pension scheme	(715)	(666)
Defined benefit pension scheme service cost	(323)	(442)
	(13,698)	(14,125)

The Directors of UK subsidiaries are included in Administration.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

9 Directors' emoluments

	Group Year ended 31 December 2016 £'000	Group Year ended 31 December 2015 £'000
Directors' emoluments for services to the Group*	(2,266)	(152)
Reimbursement of expenses	(1)	(3)
	(2,267)	(155)

*Included are £2,049,330 (2015: £2,390,024) Directors' emulmonents for services to other group companies provided by the Directors appointed on 20 December 2016.

The emoluments of the highest paid newly appointed Director, including benefits in kind were £976,148 (2015: £999,967). The pension contributions paid by the Group in respect of the highest paid newly appointed Director for the year were £6,740 (2015: £26,981). None of the newly appointed Directors have any share options or interests in the share capital of the Company.

10 Income tax charge

	Note	Group Year ended 31 December 2016 £'000	Group Year ended 31 December 2015 £'000
Current tax			
Irish Corporation tax			
- On current year profit		**(5,867)**	(25,673)
- On prior year loss		**7,460**	1
		1,593	(25,672)
Overseas tax			
- On current year profit		**(2,178)**	(22,361)
- On prior year loss		**-**	82
		(2,178)	(22,279)
Deferred tax			
Origination and reversal of temporary differences	*15*	**(1,120)**	34,531
Change in tax rates	*15*	**1,829**	3,030
Adjustment in respect of prior year	*15*	**(9,832)**	(61)
		(9,123)	37,500
Income tax charge		**(9,708)**	(10,451)

The Irish corporation tax rate applying to the Company and its Irish subsidiaries until 19 December 2016 was 12.50% (2015: 12.50%). The UK tax rate applying to the profits of the Company and all its subsidiaries from 20 December 2016 was 20%. The UK tax rate applying to the profits of subsidiaries assessable in the UK was 20% (2015: 20.25%).

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

10 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:

	Group Year ended 31 December 2016 £'000	Group Year ended 31 December 2015 £'000
Taxation at corporation tax rate 20% (2015: 12.5%)	**(1,531)**	(7,643)
Change in tax rates	**2,403**	3,030
Prior year adjustment	**(2,372)**	22
Income not taxable for tax purposes	**688**	-
Effects of taxing overseas profits at different rates	**(6,986)**	4,547
Permanent tax differences	**(1,910)**	(10,407)
Income tax charge	**(9,708)**	(10,451)

In addition to the amount charged to the Income statement, the aggregate amount of current and deferred tax, relating to components of other comprehensive income, resulted in a £1,317,638 increase movement in total comprehensive income (2015: £26,458 decrease).

11 Property, plant and equipment

	Other assets £'000	Rolling stock and other railway assets £'000	Total £'000
Cost			
Balance at 1 January 2015	**3,292**	**2,259,155**	**2,262,447**
Additions	447	129,710	130,157
Disposals	(397)	(42,163)	(42,560)
Balance at 31 December 2015	**3,342**	**2,346,702**	**2,350,044**
Additions	228	272,149	272,377
Disposals	-	-	-
Balance at 31 December 2016	**3,570**	**2,618,851**	**2,622,421**
Depreciation			
Balance at 1 January 2015	**2,044**	**552,041**	**554,085**
Charge for the year	540	104,778	105,318
Disposals	(234)	(17,532)	(17,766)
Balance at 31 December 2015	**2,350**	**639,287**	**641,637**
Charge for the year	294	108,094	108,388
Disposals	-	-	-
Balance at 31 December 2016	**2,644**	**747,381**	**750,025**
Carrying value at 31 December 2016	**926**	**1,871,470**	**1,872,396**
Carrying value at 31 December 2015	992	1,707,415	1,708,407

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 Group's borrowings attributable to the acquisition of rolling stock, see note 20 for more details.

Other assets relate to equipment, fixtures and fittings.

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

All assets have been pledged to secure the borrowings of the Group. The Group is not permitted to pledge these assets against any other obligations. The assets are secured by a fixed charge held by the financial institutions that have lent to the Security group. All assets are subject to operating or finance lease arrangements.In February 2015, the Group disposed of its freight wagon fleet resulting in a profit of £29,247,004.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

12 Finance lease receivables

	Group	
	2016	**2015**
	£'000	**£'000**
Gross investment in finance leases		
Amounts falling due:		
No later than one year	**1,637**	1,637
Later than one year and no later than five years	**5,546**	5,802
Later than five years	**3,683**	5,064
Gross investment in finance leases	**10,866**	12,503
Unearned finance income	**(2,667)**	(3,366)
Net investment in finance leases less provisions	**8,199**	9,137
Amortisation of finance lease receivables:		
Amounts falling due:		
No later than one year	**1,001**	896
Later than one year and no later than five years	**3,863**	3,813
Later than five years	**3,335**	4,428
Present value of minimum lease receivables	**8,199**	9,137
Fair value of amounts receivable under finance leases	**8,199**	9,137
Aggregate finance lease rentals receivable in the period	**699**	717

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

The Group has entered into finance leasing arrangements for the depots and certain equipment. The terms of the finance leases vary between 10 and 20 years.

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

The interest rate inherent in the leases are fixed at the contract date for all of the lease terms. The average effective interest rates contracted are between 6% and 10% (2015: 6% and 10%) per annum.

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

13 Trade and other receivables

	Group	
	2016	**2015**
	£'000	**£'000**
Current		
Trade receivables	**2,584**	9,661
Maintenance prepayment	**27,094**	23,603
	29,678	33,264
Non-current		
Maintenance prepayment	**-**	4,908
Total	**29,678**	38,172

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

14 Derivative financial instruments

	Group 2016 £'000	Group 2015 £'000
Non-current assets		
Interest rate swap contracts	9,142	860
FX forward contract – hedge accounted	20,416	-
	29,558	860
Current liabilities		
FX forward contract – hedge accounted	(153)	-
Non-current liabilities		
Interest rate swap contracts	(152,989)	(88,806)
Interest rate swap contracts – hedge accounted	(15,344)	-
FX forward contracts	-	(60)
	(168,333)	(88,866)
Total derivative financial instruments	(138,928)	(88,006)

The fair value of derivative financial instruments is based on market rates on 31 December 2016.

14.1 Foreign exchange forward swap contracts

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 the contracts entered into during the year were designated in hedge accounting relationships.

Counterparty	Notional amount 31 December 2016 £'000	Maturity date	Fair value 31 December 2016 £'000	Other comprehensive (gain)/loss 31 December 2016 £'000	Income statement (gain)/loss 31 December 2016 £'000	Realised gain in capital additions 31 December 2016 £'000
Relationship bank	100,033	20/08/2019	9,324	(9,321)	(3)	-
Relationship bank	185,082	01/07/2020	11,084	(11,086)	2	-
Relationship bank	1,459	01/07/2020	8	(8)	-	-
Relationship bank	13,600	25/10/2017	(153)	153	-	-
Relationship bank	-	Terminated	-	(2,910)	(30)	-
Relationship bank	-	Terminated	-	(2,699)	(46)	(1,319)
			20,263	(25,871)	(77)	(1,319)

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 £20,262,859 (31 December 2015: £nil).

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.

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

14.2 Interest rate swap contracts

During the year the Group entered into a number of interest rate swap contracts to hedge the risk that drives the variability of cash flows inherent in its forecast future fixed rate funding costs. On inception the contracts were designated in hedge accounting relationships.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

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

Counterparty	Notional amount 31 December 2016	Maturity date	Fair value 31 December 2016	Other comprehensive (gain)/loss 31 December 2016	Income statement (gain)/loss 31 December 2016	Realised loss in Income statement 31 December 2016	Realised loss in capital additions 31 December 2016
	£'000		£'000	£'000	£'000	£'000	£'000
Relationship banks	-	Terminated	-	6,080	-	1,235	47
Relationship banks	300,000	01/10/2049	(21,080)	20,818	262	-	-
Relationship banks	-	Terminated	-	4,680	-	-	-
Relationship banks	-	Terminated	-	4,680	-	-	-
Relationship banks	100,000	01/02/2049	5,736	(5,664)	(72)	-	-
			(15,344)	**30,594**	**190**	**1,235**	**47**

As at 31 December 2016, the hedges were deemed to be highly effective and the fair value liability associated to these interest rate swaps was £15,344,426 (31 December 2015: £nil).

During the year loss of £30,594,169 was accounted for in Other comprehensive income, in respect of interest rate swaps. £14,157,757 of this loss relates to three derivatives which were terminated (for an aggregate cash outlay of £3,980,000) as a result of fixed rate debt being issued by the Group. This loss will remain in the Hedging reserve and amortise to Property, plant and equipment over the life of the debt.

The remaining interest rate swap contracts the Group held as at 31 December 2016 were not designated in hedge accounting relationships.

15 Deferred tax

	Group 2016 £'000	Group 2015 £'000
Balance at beginning of the year	**25,677**	63,151
Amount arising from temporary differences:		
- Capital allowances	**12,264**	(37,514)
- Movement in provision	**138**	(468)
- Movement in pension provision	**(43)**	(51)
- Movement in fair value on derivatives	**(11,240)**	3,502
Change in tax rates	**(1,829)**	(3,030)
Other comprehensive expense/(income):		
- actuarial movement on retirement benefit obligations	**(510)**	26
- movement on hedging reserve	**(816)**	-
Prior year adjustment	**9,832**	61
Balance at end of the year	**33,473**	25,677

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

	Group 2016 £'000	Group 2015 £'000
Deferred tax asset	**(32,951)**	(18,875)
Deferred tax liability	**66,424**	44,552
	33,473	25,677

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

15 Deferred tax (continued)

The UK 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. No additional change included in the year.

16 Investments in subsidiary

	Group	
	2016	**2015**
	£'000	**£'000**
Cost 1 January and 31 December	2,835	2,835

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

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

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2016	Ownership Percentage 2015
European Rail Finance Holdings Limited	Ordinary Shares	Ireland**	Investment	100	100
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 to the Eversholt Rail Group	100	100
European Rail Finance (2) Limited*	Ordinary Shares	Ireland**	Investment	100	100

* Indirect subsidiaries

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

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

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

17 Inventory

	Group 2016 £'000	Group 2015 £'000
Rolling stock spares	**1,149**	1,355

Write down in the value of inventories recognised within cost of sales in the Consolidated income statement is an expense amounting to £206,382 (2015: £206,382). Stock is measured at the lower cost and net realisable value.

All assets have been pledged to secure the borrowings of the Group. The assets are secured by a fixed charge held by the financial institutions that have lent to the Security group under the terms of the financing documents.

18 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	Group 2016 £'000	Group 2015 £'000
Bank accounts	**50,566**	72,655

Within cash and cash equivalents there is a deposit of £26.4 million (2015: £26.4 million) which provides security for the Profit Participating Shares issued by one of the Group undertakings. £0.5 million (2015: £0.5 million) is restricted by the terms of the agreement with the Law Debenture Trust Corporation Plc.

19 Trade and other payables

	Group 2016 £'000	Group 2015 £'000
Trade payables	**14,859**	17,518
Other payables	**3,835**	571
Rentals received in advance	**13,247**	8,795
Maintenance, acquisition and administrative accruals	**20,764**	15,776
Interest accrual	**921**	834
	53,626	43,494

20 Borrowings

	Group 2016 £'000	Group 2015 £'000
Current		
Bank loans	**50,000**	20,000
Interest accrued	**14,999**	14,226
Transaction costs	**(1,764)**	(1,622)
	63,235	32,604
Non-current		
Bonds	**1,440,000**	1,340,000
Other loan	**5,700**	5,604
Transaction costs	**(9,110)**	(9,701)
Preference shares	**25,000**	25,000
Loan from Eversholt Investment Group (Luxembourg) Sarl	**340,562**	364,704
	1,802,152	1,725,607
	1,865,387	1,758,211

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

20 Borrowings (continued)

The Group has granted security over all of its assets to obtain external financing by way of bonds and loans. Fees incurred on raising finance have been capitalised. These fees will be amortised over the term of the borrowings.

The Profit Participating Shares ("PPS") carry a right to quarterly dividends. The PPS dividend has two parts. The first part confers a right to a LIBOR based return. The second part confers a right to 0.5% 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 have a fixed entitlement to a dividend.

The Bank loans are from a consortium of banks. The loans are fully repayable by November 2021. Interest on these loans is currently charged at LIBOR plus a margin (2015: LIBOR plus a margin).

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

None of the bonds are puttable.

The loans with Eversholt Investment Group (Luxembourg) Sarl are unsecured and have no fixed repayment terms and are therefore technically repayable on demand although the amount that the Group can pay in each accounting period is limited by the terms of its external financing agreement.

Maturity of borrowings

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

	Group	
	2016 £'000	**2015 £'000**
In more than two years but not more than five years	**330,700**	325,000
In more than five years	**1,480,562**	1,410,308
	1,811,262	1,735,308

21 Deferred revenue

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

	Group	
	2016 £'000	**2015 £'000**
Current		
Arising in respect of maintenance contracts	**3,290**	3,176
Non-current		
Arising in respect of maintenance contracts	**123,756**	106,211
	127,046	109,387

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

22 Provisions

	Group 2016 £'000	Group 2015 £'000
Current		
Engineering costs	-	834
Overheads	35	320
	35	1,154

Provision for overheads relates to disallowable expenses for tax purposes. Provision for engineering costs relates to the cost of endemic faults to rolling stock. All provisions are expected to be utilised within 12 months.

	Overheads 2016 £'000	Engineering costs 2016 £'000	Total 2016 £'000	Total 2015 £'000
Balance at beginning of the year	**320**	**834**	**1,154**	1,195
Additions	**35**	**209**	**244**	509
Provision utilised	-	**(1,043)**	**(1,043)**	(550)
Provision released	**(320)**	-	**(320)**	-
At 31 December	**35**	-	**35**	1,154

23 Share capital

	Company 2016 £'000	Company 2015 £'000
Authorised		
100,000 Ordinary shares of £1 each (2015: 100,000)	**100**	100
Allotted, called up and fully paid		
12,000 Ordinary shares of £1 each	**12**	12

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

24 Capital commitments

In respect of capital expenditure:

	Group 2016 £'000	Group 2015 £'000
Authorised and contracted	944,227	442,408

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.

25 Finance expenses paid

	Group 2016 £'000	Group 2015 £'000
Bank loans	**(434)**	(7,767)
Bonds	**(68,132)**	(69,228)
Eversholt Investment Group (Luxembourg) Sarl	**(50,085)**	(23,749)
Profit participating preference dividends	**(863)**	(1,218)
Derivative financial instruments – net interest	**(4,966)**	(5,764)
Financing costs	**(3,393)**	(1,632)
Other interest	**486**	-
	(127,387)	(109,358)

Included in financing costs is £1,422,879 of costs which have been capitalised (2015: £2,441,366).

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

26 Dividends

For the year ended 31 December 2016 dividends of £14,772,150 were paid (2015: £20,751,074).

27 Fair values of financial assets and liabilities

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

Group	**Note**	**Carrying amount**		**Fair value**	
31 December 2016			**Level 1**	**Level 2**	**Level 3**
		£'000	**£'000**	**£'000**	**£'000**
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	14	29,558		29,558	
Loans and receivables					
- Finance lease receivables	12	8,199			
- Trade and other receivables	13	29,678			
Cash and cash equivalents	18	50,566			
Total Financial assets		118,001			
Financial liabilities					
Held to maturity financial instruments					
- Derivative financial instruments	14	168,486		168,486	
Non-derivative instruments – amortised cost					
- Publicly traded bonds	20	1,100,000	1,423,790		
- Other borrowings	20	765,387			
- Trade and other payables	19	53,626			
Total Financial liabilities		2,087,499			
Total financial instruments		(1,969,498)			

Group	**Note**	**Carrying amount**		**Fair value**	
31 December 2015			**Level 1**	**Level 2**	**Level 3**
		£'000	**£'000**	**£'000**	**£'000**
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	14	860		860	
Loans and receivables					
- Finance lease receivables	12	9,137			
- Trade and other receivables	13	38,172			
Cash and cash equivalents	18	72,655			
Total Financial assets		120,824			
Financial liabilities					
Held to maturity financial instruments					
- Derivative financial instruments	14	88,866		88,866	
Non-derivative instruments – amortised cost					
- Publicly traded bonds	20	1,100,000	1,350,786		
- Other borrowings	20	658,211			
- Trade and other payables	19	43,494			
Total Financial liabilities		1,890,571			
Total financial instruments		(1,769,747)			

28 Retirement benefit obligations

28.1 General description of scheme

Final salary pension

Eversholt Rail (UK) Limited, a group undertaking, provides a defined benefit pension scheme to its employees.

The Eversholt Rail (UK) Limited section (the "Section") is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme.

The Section is governed by a trustee board, which is independent of the Company.

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

Employer contributions for the year ending 31 December 2016 are 19.1% (2015: 19.1%) of Section Pay.

The Section is open to new members.

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

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

28.2 Membership data

	31 December 2016	31 December 2015
Active members		
Number	**17**	21
Number with PRP included	**12**	15
Annual payroll (£'000)	**1,275**	1,610
PRP included (£'000)	**48**	60
Average age	**50.8**	49.5
Deferred members		
Number	**53**	51
Total deferred pensions (£'000)	**373**	339
Average age	**52.3**	51.1
Pensioner members (including dependants)		
Number	**46**	45
Annual pension payroll (£'000)	**1,142**	1,122
Average age	**65.4**	64.5

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

28 Retirement benefit obligations (continued)

28.3 Summary of assumptions

	31 December 2016 %pa	31 December 2015 % pa
Discount rate	**2.50**	3.60
Price inflation (RPI measure)	**3.25**	3.05
Increases to deferred pensions (CPI measure)	**2.25**	2.05
Pension increases (CPI measure)	**2.25**	2.05
Salary increases *	**4.25**	4.05

* plus 0.4% pa promotional salary scale.

	Value at 31 December 2016 £'000	Value at 31 December 2015 £'000
Growth assets	**25,937**	23,055
Defensive pooled fund	**12,293**	12,471
Non-Government bonds	**706**	-
Other assets	**40**	169
	38,976	35,695

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

		31 December 2016	31 December 2015
Male currently age 65	Pension under £10,300 pa or pensionable pay under £35,000 pa	**21.0**	21.0
	Others	**23.4**	23.4
Male currently age 45	Pension under £10,300 pa or pensionable pay under £35,000 pa	**23.3**	23.3
	Others	**25.7**	25.7
Female currently age 65	Pension under £3,700 pa or pensionable pay under £35,000	**22.8**	22.8
	Others	**24.6**	24.6
Female currently age 45	Pension under £3,700 pa or pensionable pay under £35,000	**25.2**	25.2
	Others	**27.0**	27.0

28.4 Defined Benefit liability at end of year

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Defined Benefit Liability at end of year		
Active members	**10,340**	9,531
Deferred members	**10,997**	7,518
Pensioner members (incl. dependants)	**27,585**	23,251
Total	**48,922**	40,300
Value of assets at end of year	**(38,976)**	(35,695)
Funded Status at end of year	**9,946**	4,605
Adjustment for the members' share of deficit	**(3,978)**	(1,842)
Net Defined Benefit Liability at end of year	**5,968**	2,763

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

28 Retirement benefit obligations (continued)

28.5 Reconciliation of Net Defined Benefit Liability

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Opening Net Defined Benefit Liability	**2,763**	2,686
Employer's share of pension expense	**420**	534
Employer contributions	**(203)**	(312)
Total loss/(gain) recognised in Statement of Other comprehensive income	**2,988**	(145)
Closing Net Defined Benefit Liability	**5,968**	2,763

28.6 Pension charge

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Employer's share of service cost	**284**	395
Employer's share of administration costs	**39**	47
Total employer's share of service cost	**323**	442
Employer's share of net interest on net defined benefit asset	**97**	92
Employer's share of pension expense	**420**	534

28.7 Other comprehensive income

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
(Gain)/loss due to liability experience	**(600)**	41
Loss due to liability assumption changes	**5,695**	194
Return on plan assets greater than discount rate	**(2,107)**	(380)
Total loss/(gain) recognised in Statement of Other comprehensive income	**2,988**	(145)

28.8 Reconciliation of Defined Benefit Obligation (DBO)

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Opening Defined Benefit Obligation	**40,300**	39,025
Service Cost	**468**	651
Interest Cost	**1,420**	1,385
(Gain)/loss on DBO - experience	**(1,030)**	11
Loss on DBO – financial assumptions	**9,492**	323
Actual benefit payments	**(1,728)**	(1,095)
Closing Defined Benefit Obligation	**48,922**	40,300

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

28 Retirement benefit obligations (continued)

28.9 Reconciliation of value of assets

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Opening value of section assets	**35,695**	34,548
Interest income on assets	**1,258**	1,231
Return on plan assets greater than discount rate	**3,511**	634
Employer contributions	**203**	312
Employee contributions	**102**	143
Actual benefit payments	**(1,728)**	(1,095)
Administration costs	**(65)**	(78)
Closing value of Section assets	**38,976**	35,695

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

28.10 DBO sensitivity analysis to significant actuarial assumptions

Year ended 31 December 2016	Sensitivity	Approximate change in DBO £'000
Discount rate	-1.0% p.a.	9,000
Price inflation (CPI measure)*	+0.5% p.a.	4,300
Salary increases	+0.5% p.a.	500
Life expectancy	+1 year	1,500

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

The sensitivity figures above are as at 31 December 2016 and based on the DBO noted in table 28.4 following the methodology consistent with prior year.

The Section is subject to a full funding actuarial valuation on a triennial basis. The funding valuation at 31 December 2013 indicated a funding surplus and so no deficit contributions are currently being paid. Employer contributions of 19.1% of Section pay (c.£203,000) are expected in the year ending 31 December 2017. This rate is expected to continue until 30 June 2018 when the employer contribution will revert to 60% of the long-term joint contribution rate of 28.7% of Section Pay. Future rates are, however, subject to review as part of the formal actuarial valuation as at 31 December 2016.

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

29 Risk management

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

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

29.1 Residual value risk

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

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

29.2 Capital risk management

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

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

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

29.3 Credit risk management

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

The Group manages credit risk by way of established risk management processes encompassing credit approvals and the monitoring and reporting of exposures. Regular reviews are undertaken to assess and evaluate the financial stability of counterparties. No lease receivables are in arrears.

Substantially all of the trade receivables outstanding as at 31 December 2016 have been received subsequent to year-end.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

29 Risk management (continued)

29.4 Liquidity risk management

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

The Group's cash flow requirements are monitored on a daily basis and comparisons are made for expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. The Group maintains a committed revolving credit facility..

Contractual undiscounted cash flows payable to meet financial liabilities are analysed below by their contractual due date:

Group

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2016						
Financial assets						
Loans and receivables						
Finance lease receivables	8,199	10,866	-	1,637	5,546	3,683
Trade and other receivables	29,678	29,678	-	29,678	-	-
Derivative financial instrument	29,558	16,300	-	2,270	14,030	-
Cash and cash equivalents	50,566	50,566	23,651	-	26,915	-
	118,001	107,410	23,651	33,585	46,491	3,683
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	168,486	54,035	-	17,268	36,767	-
Other financial liabilities – amortised cost						
- Trade and other payables	53,626	53,626	-	53,626	-	-
- Borrowings	1,865,387	2,818,942	50,000	83,449	672,939	2,012,554
	2,087,499	2,926,603	50,000	154,343	709,706	2,012,554
Total financial instruments	(1,969,498)	(2,819,193)	(26,349)	(120,758)	(663,215)	(2,008,871)

	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 assets						
Loans and receivables						
Finance lease receivables	9,137	12,503	-	1,637	5,802	5,064
Trade and other receivables	38,172	38,172	-	33,264	4,908	-
Derivative financial instrument	860	1,671	-	571	1,100	-
Cash and cash equivalents	72,655	72,655	45,738	-	-	26,917
	120,824	125,001	45,738	35,472	11,810	31,981
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	88,866	36,013	-	5,328	30,685	-
Other financial liabilities – amortised cost						
- Trade and other payables	43,494	43,494	-	43,494	-	-
- Borrowings	1,758,211	2,623,911	20,000	100,123	635,213	1,868,575
	1,890,571	2,703,418	20,000	148,945	665,898	1,868,575
Total financial instruments	(1,769,747)	(2,578,417)	25,738	(113,473)	(654,088)	(1,836,594)

29 Risk management (continued)

29.4 Liquidity risk management (continued)

Only the derivative financial instruments are measured subsequent to initial recognition at fair value. All derivative financial instruments are grouped into level one, based on the degree to which the fair value is observable. Level one fair value measurements are those derived from quoted prices unadjusted, in active markets for identical assets or liabilities.

Of the cash and cash equivalents, £26,917,500 relates to cash held on deposit as security for the holders of the PPS in European Rail Finance Holdings (£26,417,500) and for the trustees for the bond holders (£500,000).

29.5 Market risk

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

29.6 Interest rate risk management

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

	2016 £'000	2015 £'000
Fixed rate instruments		
Financial liabilities	**(1,811,262)**	(1,735,308)
Variable rate instruments		
Financial assets	**8,199**	9,137
Financial liability	**(50,000)**	(20,000)
	(41,801)	(10,863)

29.7 Interest rate sensitivity analysis

The impact of a 50 basis points increase in GBP LIBOR would have resulted in a decrease in interest expense of £768,548 and an increase in cash deposit interest received of £94,180. A 50 basis points upwards parallel shift in the yield curve would have led to a decrease in negative fair value adjustment loss of £4,426,776 in the derivative financial instruments. The sensitivity analysis is applied to the borrowing/deposit rate and performed on the monthly balance of the relevant financial instrument.

30 Operating lease arrangement

The Group as lessor:

The Group 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:

	Group	
	2016 £'000	2015 £'000
Within one year	**378,450**	339,766
2-5 years	**707,549**	735,706
Over 5 years	**198,417**	253,686
	1,284,416	1,329,158
Aggregate operating lease rentals receivable in the year	**377,538**	366,881

Notes to the annual financial statements (continued)
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31 Related-party transactions

31.1 Identity of related parties

The ultimate parent undertaking (which is the ultimate controlling party) is CK Hutchison Holdings Limited, incorporated in 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 Eversholt Investment Group (Luxembourg) sarl. 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

31.2 Transactions with related parties

Loans with Eversholt Investment Group are more fully described in note 20. Interest on these is disclosed in note 6.

Directors' emoluments are disclosed in note 9.

32 Contingent liabilities

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

33 Subsequent events

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